
THE FREEMAN

IDEAS ON LIBERTY

From the President

- 2 Global Corruption and the Interventionist State *by Richard M. Ebeling*

Columns

- 4 Perspective - I, Liberal *by Sheldon Richman*
6 America Needs Socialized Medicine? It Just Ain't So! *by Jane Orient*
16 Thoughts on Freedom - Drops and Splashes *by Donald J. Boudreaux*
24 Peripatetics - Moral Alchemy *by Sheldon Richman*
29 Our Economic Past - Thomas Garrett and the Underground Railroad
by Burton Folsom, Jr.
47 The Pursuit of Happiness - Honesty and Trust *by Walter E. Williams*



Page 6

Features

- 8 Government, Fiscal Responsibility, and Free Banking *by Richard M. Ebeling*
12 Ayn Rand: A Centennial Appreciation *by Chris Matthew Sciabarra*
18 A Consensus Society *by Russell Madden*
20 How Government Destroys Medical Care *by Steven Greenhut*
26 Selling the Free Market to Nonbelievers *by Ralph Hood*
27 Yo, Brooklyn! Get Real About Politics and Sports *by Raymond J. Keating*
31 The Vision of William P. Lear *by Anthony Young*
35 The Tobacco-Quota Buyout: More Legal Plunder *by E.C. Pasour, Jr.*
39 Capital Letters



Page 29

Book Reviews

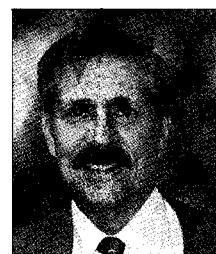
- 41 In Defence of the Realm: The Place of Nations in Classical Liberalism
by David Conway *Reviewed by Richard M. Ebeling*
42 Is the Market Moral? A Dialogue on Religion, Economics, and Justice
by Rebecca M. Blank and William McGurn *Reviewed by James Otteson*
43 No Excuses: Closing the Racial Gap in Learning
by Abigail Thernstrom and Stephan Thernstrom *Reviewed by Karen Y. Palasek*
45 Political Class Dismissed: Essays Against Politics
by James Ostrowski *Reviewed by George C. Leef*



Page 42

Global Corruption and the Interventionist State

BY RICHARD M. EBELING



In a recent survey of 50,000 people in 62 countries around the world, at least one out of every ten people admitted that he had bribed some corrupt political official or government administrator during the preceding 12 months. There seem to be very few places anywhere in the world where such political bribery does not occur. The omnipresence of such political corruption should not be surprising; it is inseparable from the modern interventionist state.

According to a report released in December by Transparency International (TI), a nongovernmental organization headquartered in Berlin, one out of every two people in the West African nation of Cameroon had paid a bribe during the previous 12 months. In Albania, Bolivia, Kenya, Lithuania, Moldova, and Nigeria, one out of every three citizens said he had done so. In the Czech Republic, Ecuador, Ghana, Mexico, the Philippines, Pakistan, Romania, Russia, and Ukraine, one out of every four to five people acknowledged bribing someone connected with the government.

In 36 of the 62 countries surveyed, respondents said that political parties were the most corrupt, followed by parliaments and legislatures, the police, the legal system and judiciary, and the tax authorities. Seventy-seven percent of all respondents stated that petty political corruption (involving business licenses, traffic violations, and so on) was a big problem in their countries. Eighty-five percent said that “grand” political corruption at the highest levels of government involving the political elites and special-interest groups was a major problem.

While few Americans or Canadians admitted they paid bribes (“petty” or “grand”) to someone in government, in both countries the respondents said that on a scale of one to four (with one being “not at all” and four being “to a large extent”), the occurrence of political corruption ranked above a three. While

respondents in France, Germany, Italy, Spain, and the United Kingdom assigned about the same degree of significance to political corruption as those in North America, between 1 and 2 percent admitted they or someone in their household had paid a bribe to a government official during the preceding year.

TI’s more comprehensive 2004 *Global Corruption Report*, released last spring, revealed that the primary bases for political corruption around the world were government procurement contracts, electoral contributions by special-interest groups, and bribes for regulatory benefits or limits on both domestic and foreign competitors.

The pervasiveness of political corruption, unfortunately, can be neither reduced nor eliminated through various forms of legislative and legal reform, as organizations such as TI often advocate. Corruption is an inevitable outgrowth of the interventionist state and can only be “cured” through the establishment of an unrestricted free-market economy.

The essence of the market economy is that each of us can acquire what others have only through voluntary acts of exchange. We must each apply ourselves in ways we hope will attract potential customers, persuading them to purchase what we are selling instead of what our rivals are offering. On the free market the only moral and legal “weapon” permitted to “capture” customers is to offer better, more useful, and less-expensive goods to the buying public. Violence and fraud are outside of the market’s “rules of the game.”

Sometimes we will not be able to get what we want. If we are not as good at satisfying consumers as our competitors are, our incomes might be reduced. This in turn would reduce our ability to acquire what others are offering on the market. The only way to prevent or reverse this is to find better ways to supply goods and

Richard Ebeling (rebeling@fee.org) is the president of FEE.

services at attractive prices that will earn us the incomes we would like.

The nature of the interventionist state is to short-circuit the free market and keep it from doing its job, namely, seeing to it that each of us applies himself in ways that serve others while pursuing his own self-interest. The interventionist state goes beyond protecting our lives and property, and assuring that all human association is based on peaceful and mutual agreement. It intervenes by using coercive power and influencing the outcomes of the market through the application of political force.

Transfers of Wealth

The government taxes the public and has huge sums of money to disburse to various programs and projects. It imposes licensing and regulatory restrictions on free and open competition. It transfers great amounts of income and wealth to different groups through sundry “redistributive” schemes. It controls how and for what purpose people may use and dispose of their own property. It paternalistically imposes legal standards influencing the ways we may live, learn, associate, and interact with others around us.

Those in the government who wield these powers hold the fate of virtually everyone in their decision-making hands. It is inevitable that those drawn to employment in the political arena often will see the potential for personal gain in how and for whose benefit or harm they apply their vast life-determining decrees and decisions. Some will be attracted to such “public service” because they are motivated by ideological visions they dream of imposing for the “good of humanity.”

Some will see that bribing those holding this political power is the only means to attain their ends. This may be to restrict or prohibit competition in their own corner of the market or to acquire other people’s money through coercive redistribution. For others, however, bribing those who hold the regulatory reins may be the only way to get around restrictions that prevent them from competing on the market and earning a living.

The business of the interventionist state, therefore, is the buying and selling of favors and privileges. It must lead to corruption, because by necessity it uses political power to harm some for the benefit of others, and those expecting to be either harmed or benefited will inevitably try to influence what those holding power do with it.

In addition, it should not be forgotten that such corruption slowly eats away at the moral fiber of the society. Austrian economist Ludwig von Mises explained this over 70 years ago in his *Critique of Interventionism*:

Public opinion is not mistaken if it scents corruption everywhere in the interventionist state. . . . By constantly violating criminal laws and moral decrees they [the bribers and the bribed] finally lose the ability to distinguish between right and wrong, good and bad. If finally few economic goods can be produced or sold without violating some regulation, it becomes an unfortunate accompaniment of “life” to sin against law and morality. . . . The merchant who began by violating foreign exchange controls, import and export restrictions, price ceilings, et cetera, easily proceeds to defraud his partner. The decay of business morals . . . is the inevitable concomitant of the regulations that were placed on trade and production. . . .

The interventionist state is a political garden that inevitably sprouts the weeds of bribery and corruption. And over time it tends to envelop and replace all traditional and ethical norms of conduct and morality.

Ending global political corruption in its various “petty” and “grand” forms, therefore, will only come with the removal of government from social and economic life. When government is limited to protecting our lives and property, there will be little left to buy and sell politically. Corruption then will be an infrequent annoyance and occasional scandal, rather than an inescapable aspect of today’s social and economic life around the world.



THE FREEMAN

IDEAS ON LIBERTY

Published by

The Foundation for Economic Education
Irvington-on-Hudson, NY 10533
Phone: (914) 591-7230; E-mail: freeman@fee.org
www.fee.org

President	Richard M. Ebeling
Editor	Sheldon Richman
Managing Editor	Beth A. Hoffman
Editor Emeritus	Paul L. Poirot
Book Review Editor	George C. Leef

Columnists

Charles Baird	Robert Higgs
Donald J. Boudreaux	Lawrence W. Reed
Stephen Davies	Russell Roberts
Richard M. Ebeling	Thomas Szasz
Burton W. Folsom, Jr.	Walter E. Williams

Contributing Editors

Doug Bandow	Dwight R. Lee
Norman Barry	Wendy McElroy
Peter J. Boettke	Tibor Machan
James Bovard	Andrew P. Morriss
Thomas J. DiLorenzo	Ronald Nash
Joseph S. Fulda	James L. Payne
Bettina Bien Greaves	William H. Peterson
John Hospers	Jane S. Shaw
Raymond J. Keating	Richard H. Timberlake
Daniel B. Klein	Lawrence H. White

Foundation for Economic Education
Board of Trustees, 2004-2005

David Humphreys, Chairman	
Henry M. Bonner	Kris A. Mauren
Sally von Behren	Paige K. Moore
Lloyd Buchanan	Tom G. Palmer
Frederick C. Foote	Roger Ream
Dan Grossman	Andrea Millen Rich
Walter LeCroy	Guillermo M. Yeatts



The Foundation for Economic Education (FEE) is a non-political, non-profit educational champion of individual liberty, private property, the free market, and constitutionally limited government.

The Freeman is published monthly, except for combined January-February and July-August issues. To receive a sample copy, or to have *The Freeman* come regularly to your door, call 800-960-4333, or e-mail bhoffman@fee.org.

The Freeman is available on microfilm from University Microfilm International, 300 North Zeeb Road, Ann Arbor, MI 48106.

Copyright © 2005 Foundation for Economic Education. All rights reserved. Reproduction or use, without permission, of editorial or graphic content is prohibited.

Perspective

I, Liberal

In October a few of us at FEE traveled all the way to Tbilisi, Georgia, one of the former Soviet Union's imperial possessions, to put on a two-day student seminar in the political economy of freedom. Georgia is a scenic country with gracious people. We enjoyed warm hospitality throughout our visit. The Georgians are struggling to make the transition from socialism to liberty, and with the help of a solid core of freedom-philosophy advocates, they might just make it.

Aside from the countless amenities extended to us, it was also nice to be in a place where the word "liberal" is understood. In the linguistically challenged United States, to be a liberal is to favor the government over the individual. Before the word was hijacked in the Progressive Era by devotees of what Ludwig von Mises called "statolatry," a liberal supported private property, free markets, and the rule of law as a bulwark against the state. The words "liberal" and "liberty" obviously share the same root. They originate in the Latin word for "free."

But that's all forgotten. Now that "liberal" is associated with bully government, it has become a dirty word, especially during elections, and no one wants it anymore—not even the advocates of bully government. *The Economist* on November 4 pointed out that it is derisory in Europe too, although over there it retains much of its original meaning.

I'd like to associate myself with what *The Economist* said:

There ought to be a word . . . to stand for what liberalism used to mean. The idea, with its roots in English and Scottish political philosophy of the 18th century, speaks up for individual rights and freedoms, and challenges over-mighty government and other forms of power. In that sense, traditional English liberalism favoured small government—but, crucially, it viewed a government's efforts to legislate religion and personal morality as sceptically as it regarded the attempt to regulate trade (the favoured economic intervention of the age). This, in our view, remains a very appealing, as well as internally consistent, kind of scepticism.

The magazine went on to lament the absurd division of freedom into personal and economic varieties, one for the left and one for the right: "That separation explains how it can be that the same term is now used in different places to say opposite things. What is harder to explain is why 'liberal' has become such a term of abuse. When you understand that the tradition it springs from has changed the world so much for the better in the past two and a half centuries, you might have expected all sides to be claiming the label for their own exclusive use."

There is no better person to turn to for insight into the changing notion of liberalism than Herbert Spencer, who examined the matter in "The New Toryism," found in his 1884 collection *The Man Versus the State* (online, thanks to the Liberty Fund, at www.econlib.org/library/LFBooks/Spencer/spnMvS.html). Not so ironically, Spencer worked at *The Economist* from 1848 (five years after its founding) to 1853.

Spencer reminded his readers that two types of societies had long been in contention: the militant, or status-based, type versus the industrial, or contract-based, type. Advocates of the latter, who later became known as both Whigs and Liberals, accomplished the Herculean task of "resist[ing] and decreas[ing] the coercive power of the ruler over the subject." After detailing this earth-shaking record, Spencer wrote, "[I]t seems needful to remind everybody what Liberalism was in the past, that they may perceive its unlikeness to the so-called Liberalism of the present. . . . They have lost sight of the truth that in past times Liberalism habitually stood for individual freedom *versus* State-coercion."

This raises the question Spencer wishes to answer: "How is it that Liberalism . . . has grown more and more coercive in its legislation?" It was a case of confused thinking. Later activists mistook Liberalism's elimination of coercive government "hindrances to happiness" for the use of coercive government to achieve the good directly. "And seeking to gain it directly, they have used methods intrinsically opposed to those originally used."

Today's *Economist* editors wisely prefer that left and right continue to shun the word "liberal," leaving it to "its original owner[s]. That will free 'liberal' to be used

exclusively from now on in its proper sense, as we shall continue to use it regardless."

Same here.

If government is ever to be restrained, it will have to be deprived of its power over money and banking. Richard Ebeling makes the case in connection with a country that has no central bank: Panama.

February 5 marks the 100th anniversary of the birth of that passionate champion of capitalism, novelist-philosopher Ayn Rand. Chris Matthew Sciabarra contributes a centennial appreciation.

All kinds of political impositions are justified in the name of consensus. Russell Madden deconstructs that treacherous notion.

As California goes, so goes the nation—and Los Angeles is experiencing an alarming loss of emergency-room service. Steven Greenhut describes a scary development that could be coming to a city near you.

Hitting someone over the head has never been an effective way to win him to one's point of view. Ralph Hood learned this the hard way and now is reformed.

Take me out to the ballgame. Take me out to the crowd. Buy me some peanuts and crackerjacks, just as long as I don't pay that tax. Ray Keating shows why no one should be forced to pay for a stadium.

The words "Lear" and "jet" go together like peanut and butter. But who was Bill Lear? Anthony Young knows.

Last October, Congress ended the 70-year-old tobacco price-support program. That was the good news. The bad news is that smokers will be forced to pay off the tobacco farmers. E. C. Pasour, Jr., explains.

Searching the political-economic landscape, our columnists have come up with this: Richard Ebeling explains political corruption. Donald Boudreaux ponders the nature of progress. Burton Folsom relates a story from the days of the underground railroad. Walter Williams considers the moral underpinnings of a free society. And Jane Orient, reading the claim that America needs socialized medicine, replies, "It Just Ain't So!"

Our reviewers render verdicts on books about the status of nations, the morality of the market, the racial gap in learning, and politics. — Sheldon Richman

srichman@fee.org



America Needs Socialized Medicine? It Just Ain't So!

BY JANE ORIENT

Paul Krugman attributes “America’s Failing Health” to the lack of Canadian-style socialized medicine and thus to the persistence of a free-enterprise sector in American medicine (*New York Times*, August 27).

Because “interest groups are too powerful, and the antigovernment propaganda of the right has become too well established,” his prescription is a “modest step in the right direction,” rather than a one-step enactment of a Canadian system.

Let’s see now: the United States has been taking such “modest steps” toward socialized medicine since the 1940s. There was Hill-Burton, or federal aid to build hospitals, in 1946; Kerr-Mills, to provide federal aid to elderly who couldn’t afford needed medical care, in 1960; then Medicare in 1965, and Medicaid.

In the Clinton years, there were additional modest steps, notably the State Children’s Health Insurance Program (SCHIP). And George W. Bush brought us another try at a Medicare prescription-drug benefit, which is to be implemented in 2006—unless there’s a replay of seniors’ reactions to the last attempt to introduce a prescription-drug benefit in 1989, when the seniors assaulted Rep. Dan Rostenkowski’s car.

What has been the result of these incremental intrusions into American medicine? An ever-increasing number of uninsured? A noncompetitive automobile industry? An overall drag on the economy?

Why, no. Those are mere temporal associations. Correlation doesn’t prove causation. The real explanation is that there hasn’t been *enough* federal intervention, in Krugman’s view. The remnant of a private sector competing with the government for those scarce resources is, paradoxically, the cause of the problems.

Scarce resources? Not exactly. In the United States it is said we spend *too much* on medical care, but there is a misallocation of the resources. That’s because selfish people want too much medical care for themselves and their families, and greedy doctors and hospitals want to provide too much treatment to those who can pay for it.

What we need, Krugman apparently supposes, is an infallible government planning mechanism to divide up the resources and to put a rigid ceiling on spending, and nongreedy doctors and hospitals to allocate the available care in the fairest possible way. Public-spirited doctors and hospitals will replace the ones we have now as soon as all their checks start coming from the government.

And of course the government will allocate a lot of resources to providing health care to healthy people, whether they want it or not (especially mental-health care), to keep them healthy. If some people get sick before all ill-health is prevented and end up circling emergency rooms in an ambulance or parked in a corridor, that will keep the pressure on for more spending.

When the effects of socialized medical programs are measured in a way that controls for confounding variables (like educational level and drug abuse), it is hard to show any effect on any health outcome, such as low birth weight. If one compares infant mortality in Canadian and American Indians of the same genetic stock, however, the Americans do better.

But the big picture, Krugman claims, is lower infant mortality and longer life expectancy in a number of

Jane Orient, M.D. (jorient@mindspring.com) is executive director, Association of American Physicians and Surgeons.

countries that have socialized medicine. In this case, correlation *does* prove causation, Krugman implies—even if the statistics aren't comparable. (Since very low-birth-weight babies are considered stillbirths in some socialized countries, whereas they are counted as live births here, the United States looks worse—even though many more tiny preemies survive here.)

Krugman may call his proposal a “modest step.” But the incremental march toward socialism is the way to bring about revolutionary changes. It is hardly less modest than Jonathan Swift's proposal to solve the Irish famine problem by eating babies. And if the Krugman Plan were presented honestly, it might provoke a similar reaction.

What to Look Forward to

This is what “single payer” Canadian-style socialism would mean:

- Everyone is forced to pay, through taxes, for other people's “health care,” especially for their well-baby visits, mental-health screening, contraceptives, sterilizations, or other politically favored services.
- No one is permitted to pay for “covered” medical care for himself or a family member, unless the family member is a dog or a cat.
- No medical practitioner or facility is permitted to earn a profit by providing more sophisticated, more convenient, or more effective care.
- Doctors' total earnings are capped, so that if they do more than the maximum permitted amount of work, it will be at their own expense.
- The availability of care is totally controlled by a political process.
- Employers and employees get to unload the entire burden of medical insurance onto taxpayers, dragging down the entire economy instead of individual industries that have succumbed to Big-Labor demands for unaffordable benefits.
- The Medicare Pac-Man will devour the entire federal treasury even sooner, unless there are massive cuts in promised benefits.
- The sick must compete with the healthy and the well-connected for a share of politically rationed resources.

Honest description, however, is not to be expected of socialists. Krugman, for example, says that the government “offers” insurance to the elderly. The fact is that the day Medicare took effect, Lyndon Johnson got all insurers to cancel existing health benefits for the elderly. One can decline to accept Medicare Part B (physician coverage), for which there is no private substitute, but the only way to avoid Medicare Part A (hospital coverage) is to give up all Social Security benefits. Thus a correct description would be: “The U.S. forces the elderly to depend on the federal government for health insurance.”

Krugman likes the idea of having the government “assume the risk” for catastrophic health costs, “thereby reducing the incentive for socially wasteful spending.” Translated, this means having the government take over all true medical insurance (which is meant to cover catastrophes, not routine expenses) and enabling the government to ration expensive care to the sick.

Krugman repeats the assertions that government health insurance—unlike the Post Office and the Pentagon—has less overhead than private enterprise. It is remotely possible that Medicare spends less on administration than some private insurers, although a 1994 study by the Council for Affordable Health Insurance showed that private insurers spend less. Nobody really knows because government accounting makes Enron's look like a model of simplicity and honesty. But the threshold for investigating a Medicare carrier for fraud is about \$200 million, as whistleblower Theresa Burr discovered. (See “Report from a Medicare Whistleblower,” *Journal of American Physicians and Surgeons*, Winter 2003; www.aapsonline.org/jpands/vol8no4/burr.pdf.)

Moreover, Medicare imposes tremendously costly burdens on “providers.”

Krugman is right in his assessment that there is much wrong with the status quo. The system of third-party payment is upside down and backwards. But instead of rebuilding the foundation, the Krugman solution would kick out the props, hastening the collapse of an unwieldy monster and crushing the best of medical care in the process.



Government, Fiscal Responsibility, and Free Banking

BY RICHARD M. EBELING

There has been no greater threat to life, liberty, and property throughout the ages than government. Even the most violent and brutal private individuals have been able to inflict only a mere fraction of the harm and destruction that have been caused by the use of power by political authorities. The pursuit of legal plunder, to use Frédéric Bastiat's well-chosen phrase, has been behind all the major economic and political disasters that have befallen man throughout history.

We often forget the fundamental truth that governments have nothing to spend or redistribute that they do not first take from society's producers. The fiscal history of mankind is nothing but a long, uninterrupted account of the methods governments have devised for seizing the income and wealth of their citizens and subjects.¹ And parallel to that same sad history must be an account of all the attempts by the victims of government's legal plunder to devise counter-methods to prevent or at least limit the looting of their income and wealth by those in political power.

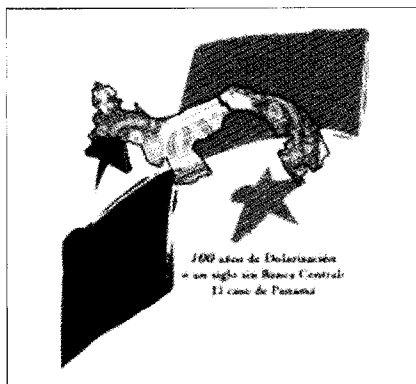
Every student who takes an economics class learns that governments have basically three methods for obtaining control over a portion of the people's wealth: taxation, borrowing, and inflation—the printing of money. It was John Maynard Keynes who pointed out 85 years ago that “By a continuing process of inflation, governments can confiscate, secretly and unobserved, an important part of the wealth of their citizens. By this method they not only confiscate, but they also confiscate arbitrarily; and, while the process

impoverishes many, it actually enriches some. . . . There is no subtler, no surer means of overturning the existing basis of society than to debauch the currency. The process engages all the hidden forces of economic law on the side of destruction, and does it in a manner which not one man in a million is able to diagnose.”²

To prevent the use of inflation to attain their fiscal ends, various attempts have been made over the last 200 years to limit the power of governments to print money to cover their expenditures. In the nineteenth and early twentieth centuries the method used was the gold standard. The idea was to place the creation of money outside the control of government. As a commodity, the amount of gold available for both

monetary and nonmonetary uses is determined and limited by the same market forces that determine the supply of any other freely traded good or service: the demand and price for gold for various uses relative to the cost and profitability of mining and minting it into coins or bullion, or into some other commercial form.

Any paper money in circulation under the gold standard was meant to be money substitutes—that is, notes or claims to quantities of gold that had been deposited in banks and that were used as a convenient alternative to the constant withdrawing and depositing of gold to facilitate everyday market exchanges.



Richard Ebeling is the president of FEE. This paper was delivered at a conference on “One Hundred Years of Dollarization, or a Century without a Central Bank: The Case of Panama,” sponsored by Fundación Libertad in Panama City, Panama, on November 12, 2004.

Under the gold standard, the supply of money substitutes in circulation was meant to increase and decrease to reflect any changes in the quantity of gold in a nation's banking system. The gold standard that existed in the late nineteenth and early twentieth centuries never worked as precisely or as rigidly as it is portrayed in some economics textbooks. But, nonetheless, the power of government to resort to the printing press to cover its expenditures was significantly limited.

Governments, therefore, had to use one of the two other methods for acquiring their citizens' and subjects' income and wealth. Governments had to either tax the population or borrow money from financial institutions. But as James Buchanan and others have pointed out, before World War I many of the countries of North America and western and central Europe operated under an "unwritten fiscal constitution."³ Governments, except during times of national emergency, were expected to more or less balance their budgets on an annual basis. And if a national emergency (such as a war) compelled a government to borrow money to cover its unexpected expenditures, it was expected to run budget surpluses to pay off any accumulated debt when the emergency passed.

This unwritten balanced-budget rule was never rigidly practiced either, of course. But the idea that needless government debt was a waste and a drag on the economic welfare of a nation served as an important check on the growth of government spending. When governments planned to do things, the people were more or less explicitly presented with the bill. It was more difficult for governments to promise a wide variety of benefits without also showing what society's tax burden would be.

Gold Standard Shelved

This all changed during and after World War I. The gold standard was set aside, and Keynes, who in 1919 had warned about the dangers of inflation, soon

was arguing that gold was a "barbarous relic" that needed to be replaced with government-managed paper money to facilitate monetary and fiscal fine-tuning.⁴ And that unwritten fiscal constitution which required annual balanced budgets was replaced with the Keynesian conception of a balanced budget over the phases of the business cycle.

In practice, of course, this set loose the fiscal demons. Restrained by neither gold nor the limits of taxation, governments around the world went into an orgy of deficit spending and money creation that

led some to refer to a good part of the twentieth century as the "age of inflation." Politicians and bureaucrats could now far more easily offer short-run benefits to special-interest groups through growth in government power and spending, while avoiding any mention of the longer-run costs to society as a whole.

Beginning in the late 1960s and 1970s a counterrevolution against Keynesian economics emerged, especially in the United States, which has come to be identified with Milton Friedman and monetarism.⁵ To restrain government's ability to create inflation, Friedman proposed a "monetary rule": the annual

increase in the money supply should be limited to the average annual increase in real output in the economy. Put the creation of paper money on "automatic pilot," and governments would once more be prevented from using the printing press to capriciously cover their expenditures.⁶

But in the years after receiving the Nobel Prize in economics, Friedman had second thoughts about the effectiveness of his monetary rule. He has stated that Public Choice theory—the use of economic theory to analyze the logic and incentives in political decision-making—persuaded him that trying to get central banks to pursue a monetary policy that would serve the long-run interest of society was a waste of time. Just like the rest of us, politicians, bureaucrats, and central bankers have their own self-interested goals, and they

Under the gold standard, the supply of money substitutes in circulation was meant to increase and decrease to reflect any changes in the quantity of gold in a nation's banking system.

will use the political power placed at their disposal to advance their interests. "We must try to set up institutions under which individuals who intend only their own gain are led by an invisible hand to serve the public interest," Friedman said.⁷ He also concluded that after looking over the monetary history of the twentieth century, "leaving monetary and banking arrangements to the market would have produced a more satisfactory outcome than was actually achieved through government involvement."⁸

The Case of Panama

Panama, from its beginning as an independent country 100 years ago, found an external check on the danger of domestic inflation through what has become known as "dollarization." For the most part, control of the money supply has been placed outside the hands of the Panamanian political authorities by using U.S. dollars as the primary currency. The Panamanian government has been unable to arbitrarily print money to cover its expenditures. And while the Panamanian people may have a variety of objections to the size and scope of their government, the power to directly create inflation is not one of them.⁹

However, a political authority still has ultimate decision-making power over the money that the Panamanian people use. It is just that this authority resides in the Federal Reserve Bank headquarters in Washington, D.C. Given the history of monetary mismanagement by governments in Latin America in both the nineteenth and the twentieth centuries, it is certainly true that Panama has fared far better than many other countries in this part of the world by using the U.S. dollar instead of a paper money produced and controlled by its own local government. The dollar has more or less played the role in Panama that gold was supposed to play under a gold standard.

It may be that for the foreseeable future, political circumstances will make it advantageous to continue to have the dollar play this role. But there is another possible path that a country like Panama can follow. It is the path of monetary freedom. Under a regime of monetary freedom the government would no longer have any role in monetary and banking affairs. The people would have, to use a phrase popularized by

the Austrian economist F. A. Hayek, a "choice in currency."¹⁰ The law would respect and enforce all market-based, consensual contracts regardless of the currency chosen by the parties. And the government would not give a special status to any particular currency through legal-tender laws.

Monetary freedom encompasses what is known as "free banking." That is, private banks are at liberty to accept deposits in any commodity money or currency left in their trust by depositors and to issue their own notes or claims against these deposits. To the extent these notes are recognized and trusted by a growing number of people in the wider economic community, they may circulate as convenient money substitutes. Such private banks would settle their mutual claims against each other on behalf of their respective depositors through private clearinghouses that would have international connections as well.

Few advocates of the free market have included the privatization of the monetary system among their proposed policy reforms. Most notable in the twentieth century was the Austrian economist Ludwig von Mises.¹¹ But the last 20 years have seen the emergence of a body of serious and detailed literature on the desirability and workability of a fully private and competitive free-banking system as an alternative to central banking.¹²

Its political advantage is that it completely removes all monetary matters from the hands of government. However effective the old gold standard may have been, it nonetheless remained a government-managed monetary system that opened the door to eventual abuse. Panama's dollar standard ultimately depends on the decision-making of the monetary central planners in Washington, D.C., and therefore is not free from changing political currents and pressures within the United States.

Furthermore, a free-banking system fulfills Milton Friedman's recommendation that the monetary order should be one that harnesses private interest for the advancement of the public interest through the "invisible hand" of the market process. The interests of depositors in a reliable banking system would coincide with the self-interest of profit-seeking financial intermediaries. A likely unintended consequence would

be a more stable and adaptable monetary system than the centrally planned monopoly the world labors under now.

No Central Bank to Abolish

Because Panama is small and generally open to world trade, it may be able to shift to a fully market-based monetary and banking system more easily than a relatively large country where the internal and external political pressures to maintain the status quo may be much greater. Indeed, a major stumbling block to monetary freedom need not be overcome in Panama precisely because there is no national central bank to abolish.

Of course, a system of monetary freedom does not do away with the continuing motives for government to grow and spend. As the recent financial crisis in Argentina demonstrated, even limits on the government's ability to create money to finance its expenditures does not preclude fiscal irresponsibility, with damaging economic consequences for a large segment of the population.

In the long run, the only way to limit the growth of government spending and power over society is to change political and ideological thinking. As long as many people want government to use its power to tax and regulate to benefit them at the expense of others, it will retain its power and continue to grow.

Monetary and fiscal reform is ultimately inseparable from the rebirth and implementation of a philosophy of freedom that sees government limited to the protection of life, liberty, and property. If the belief in and desire for personal and economic liberty gains hold and grows, monetary and fiscal reform will eventually come by logical necessity.



1. See Joseph A. Schumpeter, "The Crisis of the Tax State" [1918] in *The Economics and Sociology of Capitalism*, ed. Richard Swedberg (Princeton, N.J.: Princeton University Press, 1991), p. 100: "The fiscal history of a people is above all an essential part of its general history. An enormous influence on the fate of nations emanates from the economic bleeding which the needs of the state necessitates, and from the use to which its results are put."

2. John Maynard Keynes, *The Economic Consequences of the Peace* (New York: Harcourt, Brace, 1920), pp. 235–36.

3. James M. Buchanan and Richard E. Wagner, *Democracy in Deficit: The Political Legacy of Lord Keynes* (New York: Academic Press, 1977).

4. John Maynard Keynes, *A Tract on Monetary Reform* (New York: Harcourt, Brace, 1924), p. 187.

5. Milton Friedman, "The Counter-Revolution in Monetary Theory" [1970] in *Monetarist Economics* (Cambridge, Mass.: Basil Blackwell, 1991), pp. 1–20.

6. Milton Friedman, *A Program for Monetary Stability* (New York: Fordham University Press, 1960).

7. Milton Friedman, "Economists and Economic Policy," *Economic Inquiry*, January 1986, pp. 1–10.

8. Milton Friedman and Anna Schwartz, "Has Government Any Role in Money?" *Journal of Monetary Economics*, 1986, p. 59.

9. Juan Louis Moreno-Villalaz, "Lessons from the Monetary Experience of Panama: A Dollar Economy with Financial Integration," *Cato Journal*, Winter 1999, pp. 421–39.

10. F. A. Hayek, *Choice in Currency: A Way to Stop Inflation* (London: Institute of Economic Affairs, 1976).

11. Ludwig von Mises, *The Theory of Money and Credit* (Indianapolis: Liberty Classics, 1981 [1924]), pp. 434–38; "Monetary Stabilization and Cyclical Policy" [1928] in Israel M. Kirzner, ed., *Classics in Austrian Economics: A Sampling in the History of a Tradition*, Vol. 3 (London: William Pickering, 1994), pp. 85–88; *Human Action: A Treatise on Economics* (Irvington-on-Hudson, N.Y.: Foundation for Economic Education, 4th ed., 1996), pp. 440–48; see also Lawrence H. White, "Mises on Free Banking and Fractional Reserves" in John W. Robbins and Mark Spangler, eds., *A Man of Principle: Essays in Honor of Hans F. Sennholz* (Grove City, Pa.: Grove City College Press, 1992), pp. 517–29.

12. See Lawrence H. White, *Free Banking in Great Britain: Theory, Experience, and Debate, 1800–1845* (New York: Cambridge University Press, 1984), *Competition and Currency: Essays on Free Banking and Money* (New York: New York University Press, 1989), and *The Theory of Monetary Institutions* (New York: Blackwell, 1999); George A. Selgin, *The Theory of Free Banking: Money Supply Under Competitive Note Issue* (Totowa, N.J.: Rowman & Littlefield, 1988) and *Bank Deregulation and Monetary Order* (London/New York: Routledge, 1996); Kevin Dowd, *Private Money: The Path to Monetary Stability* (London: Institute of Economic Affairs, 1988), *The State and the Monetary System* (New York: St. Martin's Press, 1989), *Laissez-Faire Banking* (London/New York: Routledge, 1993), and *Money and the Market: Essays on Free Banking* (London/New York: Routledge, 2001); and Kevin Dowd, ed., *The Experience of Free Banking* (London/New York: Routledge, 1992). See also Steven Horwitz, *Monetary Evolution, Free Banking, & Economic Order* (Boulder, Colo.: Westview Press, 1992).

Ayn Rand: A Centennial Appreciation

BY CHRIS MATTHEW SCIABARRA

Born in Russia on February 2, 1905, the late novelist and philosopher Ayn Rand would eventually emigrate to the United States and make an indelible mark on intellectual history. (She died in 1982.) As we celebrate the centennial of her birth, it is fitting to recall Rand's unique contribution to the defense of capitalism as expressed in her magnum opus, the best-selling novel *Atlas Shrugged*.

In 1945, when Rand began outlining that work, she made a self-conscious decision to create a "much more 'social' novel than *The Fountainhead*." She wished to focus not simply on the "soul of the individualist," which *The Fountainhead* had dramatized so well, but to proceed "from persons, in terms of history, society, and the world." This new "story must be primarily a picture of the whole," she wrote in her journal, making transparent the cluster of relationships that constitute society as such:

Now, it is this *relation* that must be the theme. Therefore, the personal becomes secondary. That is, the personal is necessary only to the extent needed to make the relationships clear. In *The Fountainhead* I showed that Roark moves the world—that the Keatings feed upon him and hate him for it, while the Tooheys are consciously out to destroy him. But the theme was Roark—not Roark's relation to the world. Now it will be the relation.²

Atlas Shrugged explores these relations in every dimension of human life. It traces the links between political economy and sex, education and art, metaphysics and psychology, money and moral values. It concentrates on the union of spiritual and physical

realms and on the concrete means by which certain productive individuals move the world, and by which others live off of their creations. It shows the social importance of the creative act by documenting what would happen if the prime movers, the "men of the mind," went on strike.

Most important, however, *Atlas Shrugged* provides a manifesto for a new radicalism—not a political radicalism per se, but a *methodological* radicalism, a radical way of thinking on which political and social change is built. As we celebrate the Rand centenary, it is fitting to explore the implications of Rand's radicalism.

"To be radical," Karl Marx said, "is to grasp things by the root." Unlike Marx, however, Rand repudiated communism and its root, the "basic premises of collectivism" it embodied. Rand's attack was "*radical* in the proper sense of the word." As she explained: "'Radical' means 'fundamental.' Today, the fighters for capitalism have to be, not bankrupt 'conservatives,' but new radicals, new intellectuals and, above all, new, dedicated moralists."⁴

The analytical power of Rand's radical framework went beyond a search for roots. In seeking to understand the *system* of statism, Rand showed how various factors often mutually support one another in sustaining its irrationality. She explores how coercive relations are at war with human beings and with life itself; they are "*anti-man, anti-mind, anti-life*."⁵

Chris Matthew Sciabarra (chris.sciabarra@nyu.edu) is a visiting scholar in the department of politics at New York University and author of *Ayn Rand: The Russian Radical* (1995). This essay is derived from a more comprehensive paper written for the forthcoming anthology, edited by Edward Younkins, *Atlas Shrugged: Ayn Rand's Philosophical and Literary Masterpiece*.

Mind-Body Integration

Rand's case for capitalism is a metaphysical and moral case built on a total and unequivocal rejection of the mind-body dichotomy and all the false alternatives it engenders. In her philosophic journals, Rand explained how her novel was meant to "[v]indicate the industrialist" as "the author of material production."⁶ But underlying this vindication was Rand's desire to secularize the spiritual and spiritualize the material:

The material is only the expression of the spiritual; that it can neither be created *nor used* without the spiritual (thought); that it has no meaning without the spiritual, that it is only the means to a spiritual end—and, therefore, any new achievement in the realm of material production is an act of *high spirituality*, a great triumph and expression of man's spirit. And show that those who despise "the material" are those who despise man and whose basic premises are aimed at man's destruction.⁷



Ayn Rand

In Rand's view, the "spiritual" does not pertain to an other-worldly faculty. It refers to an activity of human consciousness. Reason, as "the highest kind of spiritual activity," is required "to conquer, control, and create in the material realm."⁸ She did not limit material activities to purely industrial production. She wished to "show that *any* original rational idea, in any sphere of man's activity, is an act of creation."⁹ This applies equally to the activity of industrialists and artists, businessmen and intellectuals, scientists and philosophers. Each of these spheres is accorded epistemological significance—and supreme respect.

By connecting reason and production, thought and action, theory and practice, fact and value, morality and prudence, Rand intended to uncover the "deeper, philosophical error" on which these various dichotomies were based. As such, *Atlas Shrugged* was designed to "blast the separation of man into 'body' and

'soul,' the opposition of 'matter' and 'spirit.'"¹⁰ Rand rejected the metaphysical dualists who had bifurcated human existence. She proclaimed in her journal that "Man is an indivisible entity." Mind and body "can be considered separately only for purposes of discussion, not in actual fact," she explained. Thus, in the projection of her "ideal man," John Galt, there is "*no intellectual contradiction and, therefore, no inner conflict*" between mind and body.

The Sanction of the Victim

Galt's revolution *against* human fragmentation is also a revolution *for* those who have been victimized by it and by the altruist morality that feasts on self-immolation. Throughout *Atlas Shrugged*, Rand showed how altruism is used by some (the "looters") to instill guilt in others (the "producers"), by putting the virtues of the latter at the service of the former. She argued that the altruist's demands for individual self-sacrifice to a "common good" require the "sanction of the victim."¹² The creators have for too long implicitly collaborated with their exploiters. That Galt grasps this principle, and that Hank Rearden and Dagny Taggart do not, sets up the main plot conflict in the novel. When

Rearden begins to understand the implications of his actions, and the vast social consequences of a reckless moral code, he refuses to participate in his own martyrdom or to condone the government's confiscation of his property. He tells his persecutors: "Whatever you wish me to do, I will do at the point of a gun. If you sentence me to jail, you will have to send armed men to carry me there—I will not volunteer to move. If you fine me, you will have to seize my property to collect the fine—I will not volunteer to pay it. If you believe that you have the right to force me—use your guns openly. I will not help you to disguise the nature of your action" (479).

By withdrawing the "sanction of the victim," the men of the mind strike out against the altruist core of statist political economy. But it is the "pyramid of ability" that explains why the strike works so effectively by draining the economy of talent. Those at the top

of their intellectual craft contribute the most to those below them, while those at the bottom free-ride on the achievements of the innovators above them. Rand did not view this as a static class pyramid, for she believed that individuals can rise to levels consonant with their developed abilities. When human beings relate to one another on the basis of these abilities, exchanging value for value, a benevolent harmony of interests becomes possible. When “need,” rather than ability, becomes a criterion for the acquisition of values, it sets off a degenerative social process in which the “needs” of some place a moral claim on the lives of others. This is the evil of altruism, says Rand; it becomes a pretext for oppressing the most creative individuals in society.

Cultural and Political Decay

Moral and social deterioration go hand in hand with cultural and political degeneration, in Rand’s view. In the dystopian society of *Atlas Shrugged*, Rand contrasted the “symphony of triumph” that is Richard Halley’s “Concerto of Deliverance” with the “dreary senselessness of the art shows” in vogue. And yet it is the senseless that receives public adulation and government subsidies. As the literary leader of his age, Balph Eubank declares: “No, you cannot expect people to understand the higher reaches of philosophy. Culture should be taken out of the hands of the dollar-chasers. We need a national subsidy for literature. It is disgraceful that artists are treated like peddlers and that art works have to be sold like soap” (141).

This is the same cultural figure who asserts that “Plot is a primitive vulgarity in literature”—a claim like that of Dr. Simon Pritchett, who adds: “Just as logic is a primitive vulgarity in philosophy.” And Mort Liddy, who proclaims: “Just as melody is a primitive vulgarity in music” (134).

As another sign of the cultural and philosophic bankruptcy of the society portrayed in *Atlas Shrugged*, we are introduced to Pritchett’s book, *The Metaphysical Contradictions of the Universe*, which “proved irrefutably” that “Nothing is absolute. Everything is a matter of opinion” (265). And then there is Dr. Floyd Ferris of the State Science Institute, which produces the top-secret “Project X,” an apparatus of death.

Ferris is the author of *Why Do You Think You Think?*—a book that declares that “Thought is a primitive superstition” and that “Nothing exists but contradictions” (340–41).

Rand made it clear that such books flourish in this degraded society and that their floating abstractions have actual implications: “You think that a system of philosophy—such as Dr. Pritchett’s—is just something academic, remote, impractical? But it isn’t. Oh, boy, how it isn’t!” (265).

The ultimate concrete testament to the deadly implications of a culture that denigrates reality, logic, certainty, principles, ethics, rights, and the individual is the fatal voyage of the Taggart Comet, a train that disappears into the eternity of a tunnel, each of its passengers sharing “one or more” of the ideas of a nihilistic age.

Rand also showed that such nihilism could never triumph if its death premises were fully articulated. Those ideas can gain currency only when rationalized as means to glowing “social” ends. Rand illustrated how the use of a certain *political* language serves the thoroughly corrupt material interests of those who wield political power. “The State Science Institute is not the tool of any private interests or personal greed,” we are told; “it is devoted to the welfare of mankind, to the good of humanity as a whole—” (819). These “sickening generalities” and Orwellian slogans, repeated over and over again by the politically privileged, are the veneer that covers up the looting of the productive and the development of weapons of mass destruction and torture.

Every government bill, every political organization, is a study in euphemisms. Corporations slurping at the public trough, while using antitrust rulings to crush their competitors? That’s the “Anti-Dog-Eat-Dog Rule” in action. Then there are companies like the “Interneighborly Amity and Development Corporation” or the “Friends of Global Progress,” which campaigns for the “Equalization of Opportunity Bill,” the forced “social” sharing of productive assets. “The Bureau of Economic Planning and National Resources” and other government agencies focus on “Essential Need” Projects. “The Unification Board,” the “Railroad Unification Plan,” the “Steel

Unification Plan,” the “Order of Public Benefactors” all aim for “the democratization of industry.” Such acts in the “public interest” destroy *private* property, genuine *social* accountability, and *individual* responsibility. Rand documented, painfully, how the destruction of the market economy and its specialization and division of labor is, ultimately, a destruction of the “division of responsibility.” In a statist social order, where everybody owns everything, nobody will be held responsible for anything. “It’s not my fault” is the statist’s credo.”¹⁴

This irresponsibility is only one aspect of the *process* by which a statist economy implodes. In *Atlas Shrugged*, the economic system careens from one disaster to another, as the “men of the mind” withdraw their sanction from a government that regulates, prohibits, and stifles trade. Statist politicians attempt to exert more and more control over the machinery of production. To no avail. In the end, directives are issued, like Number 10-289, which attach workers to their jobs, order businesses to remain open regardless of their level of profit, nationalize all patents and copyrights, outlaw invention, and standardize the quantity of production and the quantity of consumer purchases, thereby freezing wages and prices—and human creativity.

The “pyramid of ability” is supplanted by the “aristocracy of pull.” A predatory neofascist social system, which survived parasitically, must ultimately be destroyed by its own inner contradictions, incapacitating or driving underground the rational and productive Atlases who carry the world on their shoulders.

Rand’s radical legacy, as presented in *Atlas Shrugged*, led her, in later years, to question the fundamentals at

work in virtually every social problem she analyzed. She viewed each problem through multidimensional lenses, rejecting all one-sided resolutions as partial and incomplete. On the occasion of the 100th anniversary of Rand’s birth, it is important to remember that her conception of human freedom depended on a grand vision of the psychological, moral, and cultural factors necessary to its achievement. Hers was a comprehensive revolution that encompassed all levels of social relations: “*Intellectual* freedom cannot exist without *political* freedom; *political* freedom cannot exist without *economic* freedom; a *free mind* and a *free market* are *corollaries*.”¹⁵



1. Ayn Rand, *Journals of Ayn Rand*, ed. David Harriman (New York: Penguin Dutton, 1997), p. 390.

2. *Ibid.*, p. 392.

3. Karl Marx, “The Critique of Hegel’s Philosophy of Right,” in *Early Writings*, trans. and ed. T. B. Bottomore; foreword by Erich Fromm (New York: McGraw-Hill, 1963 [1843]).

4. Ayn Rand, “Conservatism: An Obituary,” in Ayn Rand, *Capitalism: The Unknown Ideal* (New York: New American Library, 1967), p. 200.

5. Ayn Rand, “Is *Atlas Shrugged*?” in *ibid.*, p. 151.

6. *Journals*, p. 550.

7. *Ibid.*, p. 551.

8. *Ibid.*

9. *Ibid.*, p. 550.

10. *Ibid.*, p. 551.

11. *Ibid.*, p. 512.

12. Ayn Rand, *Atlas Shrugged*, 35th anniversary ed. (New York: Dutton, 1992 [1957]), p. 454. Subsequent quotes from the novel are indicated by page numbers in the text.

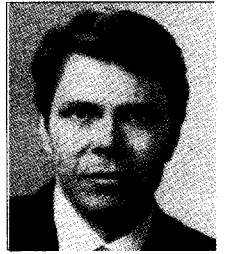
13. *Journals*, p. 507.

14. *Atlas Shrugged*, p. 222.

15. Ayn Rand, *For the New Intellectual: The Philosophy of Ayn Rand* (New York: New American Library, 1961), p. 25.

Drops and Splashes

BY DONALD J. BOUDREAUX



My wife, Karol, and I recently painted some rooms of our home. When I bought the paint at Home Depot, the helpful saleswoman showed me a new product: a plastic lid that slips on a gallon-sized paint can more easily than, but just as snugly as, the original metal lid. And it's much easier to remove. The plastic lid also has a spout for neater pouring.

It's priced at \$1.99.

This plastic paint-can lid is an unassuming example of how markets promote human progress. It is a process of countless, usually small, daily improvements in the quality and range of goods and services made available to consumers.

Think of human material prosperity as water contained in an enormous swimming pool. The higher the water level, the greater is our prosperity. Call it the "prosperity level" in the prosperity pool.

How is this pool filled? Mostly, tiny drop by tiny drop. Millions of people line the edge of the pool, each dripping in a drop or two of additional prosperity from time to time.

Importantly, no *single* drop has any noticeable effect on the prosperity level. Had plastic paint-can lids never been invented and produced, no one would have noticed. And any measurement of our material quality of life, such as real per-capita income, is unable to detect any effect of the introduction of this product. Ditto for almost everything else that becomes available on the market: new shades of paint color for homes; improved quality of stereo speakers; a better food technique; longer-lasting light bulbs; a new fusion cuisine; a more-efficient machine for weaving fabric; improved corkage for wine; Listerine PocketPak breath strips. The list is practically endless.

A very few drops *are* large, more like bucketfuls. For example, the polio vaccine and Henry Ford's innovative use of the assembly line to produce automobiles. But such examples are rare, and even these are preceded by countless unheralded achievements that happen to come together simultaneously and cascade into a sudden and large infusion of prosperity into the

pool. The most significant fact is that almost all drops are tiny; almost no drop, alone, adds noticeably or measurably to the level of the prosperity pool.

Americans have become so accustomed to the daily momentum of prosperity's rise that they are now inured to it. It's as though they float in this pool on a rubber raft. Unless the rate of increase in the level of the

pool significantly accelerates, they don't perceive the steady and daily increases in their level of prosperity, each daily addition to the pool being small, but over time the result being enormous.

Failing to perceive the steady rise of prosperity, many people wrongly suppose that it isn't rising. Such unperceptive people often insist that government take action to raise the prosperity level—and, for such people, raising this level means raising it *noticeably*. Their assumption is that government, being so big, so forceful, and so able to break free of the rules that bind private-sector agents and institutions, can perform such a quick Herculean feat. This demand for such government is reinforced by a supply of people promising to grant it.

How many times have we heard people proclaim that they "want to change the world": commencement

Donald Boudreaux (dboudrea@gmu.edu) is chairman of the economics department at George Mason University and a former president of FEE.

speakers, preachers at the pulpit, politicians on the stump. This desire is universally regarded as admirable. And it would in fact *be* admirable if by “changing the world” people understood that our world is best changed incrementally, with each of us contributing our own relatively small amounts to the prosperity pool and not cocksurely supposing that we are so individually smart and informed and wise that any one of us individually can raise the level of the prosperity pool noticeably.

Making a Big Splash

Because each of us individually (and this includes even large corporations) is quite small compared to the whole, no one can ever hope to raise the prosperity level noticeably. This is a good thing, for it means that no one has the power to inflict grievous systemic harm on society at large. But too many of us lament this fact. We mistakenly believe that our private productive actions—our own little drops—don’t “make a difference.” They arrogantly want to make a big splash in the prosperity pool. And too often, those with a passion to “change the world” plead for action by government, the one institution that *can* make a big splash.

So government tries to make unusually large infu-

sions into the prosperity pool. Unfortunately, because government officials are directed neither by market signals nor market incentives, the infusions are more like boulders tossed awkwardly, if ceremoniously, into the pool. Some boulders do indeed make big splashes—for example, the Smoot-Hawley tariff and virtually all the New Deal programs, which significantly deepened and prolonged the Great Depression. Other boulders are a bit smaller—such as minimum-wage legislation and occupational-licensing requirements—and make correspondingly smaller splashes.

The irony is that the bigger and more noticeable the splash, the more likely it is to be lionized by academics, pundits, and politicians. They focus on the input (the boulder) and on the high-flown rhetoric of those who chuck it into the pool and never bother to look at the actual results. But because splashes are wild, much of any splash—especially big splashes—ends up outside the pool and is lost. The actual result is less prosperity than would have existed without the splashing boulder.

So beware of people who demand that government make big splashes. Remind them that, while private markets aren’t splashy, drop by drop and day by day they improve the world significantly. 

A Consensus Society

BY RUSSELL MADDEN

My wife and I last year completed a 5,000-mile road trip to Washington and back. A friend we visited in Seattle is a librarian in that city's system. While we were there, she alerted us to the upcoming grand opening of the brand-new \$165 million Seattle Central Library. Along with a few thousand Seattle residents, we lined up outside to inspect this new construction. With a (relatively) rare blue sky and temperatures warming into the 70s, we waited for the opening ceremonies and our chance to join the throngs in exploring the library.

A festive atmosphere suffused the crowd. The concentration of people also brought out local political activists with a variety of petitions for signing. Seattle is known for its "liberal" bent, so I was unsurprised at the subject of the petition a middle-aged gentlemen asked me to sign.

He and his coworkers wanted to halt a proposal to finance charter schools with tax dollars. Person after person signed the petition, nodding to his assurances that allowing this change to occur would "destroy our public school system."

When he looked at me, I told him I was a visitor but added that I would not have signed the petition anyway. (Of course, no taxes should be used for any kind of school.) I was prepared to leave the situation at that, but the fellow pursued the subject and questioned my answer.

"But charter schools would hurt public education."

I looked at him and said, "I think all schools should be private. I don't think government has any business regulating ideas."

The astonished expression on his face quickly hardened into annoyance. "But we live in a consensus society," he said, evidently astounded at my abysmal ignorance. "We've voted to support public education."

"There are some things that we are not supposed to vote on," I said, growing equally irked. "That's what the Constitution and the Bill of Rights are all about."

He waved toward the looming glass wall of the new library. "Then you must think that libraries should be private, too!" he said hotly. "That people should have to pay to use them."

I nodded. "Yes. All libraries should be private, too."

He leaned closer and sneered, clearly unable to comprehend my alien mindset. "Well, welcome to my library. Enjoy." With that, he moved along to friendlier, more receptive environs.

While we ended up not visiting the library until a day or two later (a separate story), this random encounter encapsulated one of the biggest problems undermining the integrity of our society. This gentleman's invocation of the phrase "consensus society" was clearly designed to crush any objections I had to his

Russell Madden (rdmadden@earthlink.net) teaches writing at Kirkwood Community College in Cedar Rapids, Iowa, and is a freelance writer.

plans. For him, as long as people reach a “consensus,” no one else has a legitimate right to complain. Dissenters simply have to accept what a majority of their fellow citizens desire and have voted to support.

(Even in this, the activist was wrong. In communication theory, “consensus decision-making” occurs only when everyone examines an issue and eventually agrees that solution X is the best one given the constraints of the situation. NB: *Everyone* has to agree to support the solution for there to be a true consensus.)

As have most Americans, this activist has all but obliterated the concept of “freedom” from his thoughts and submerged what tattered fragments remain beneath the crushing weight of “consensus,” that is, democracy or voting. His proprietary attitude regarding the Seattle Central Library no doubt arose because he voted in favor of the taxes to fund it.

Pure democracy. Majoritarianism. Collectivism. Consensus. By any name, the notion that the “good” is defined by how many people support it; that any policy garnering the most votes can and should be imposed on an unwilling minority; that no area of life should be off limits to the “will of the people”—all these beliefs are profoundly dangerous. They have been used throughout history to justify not only the most heinous actions imaginable but also those that are the most petty and intrusive on our day-to-day existences.

As Ayn Rand wrote in “The New Fascism: Rule by Consensus” (in *Capitalism: The Unknown Ideal*), governing by consensus means “that statistics should be substituted for truth, vote-counting for principles, numbers for rights, and public polls for morality . . . that the number of . . . adherents should be the criterion of an idea’s truth or falsehood—that any desire . .

. should be accepted as a valid claim, provided it is held by a sufficient number of people—that a majority may do anything it pleases to a minority.”

Cost-Free Concern

The attitudes of the activist I met are hardly new. With variations, even his catch phrase, “a consensus society,” enjoys a long and multihued history. He and the others passing out petitions in front of the library cloaked their goals in the common language of “concern” and “compassion” to make their actions more palatable, both to themselves and to their audience. The folks in the crowd who signed the petitions no doubt considered themselves to be kind, thoughtful, and charitable individuals. They could easily, effortlessly scribble their signatures filled with a feeling that they were “concerned” citizens doing “good”—without any immediate cost to themselves.

Sadly, the man who confronted me is, of course, correct: we *do* live in a “consensus society.” There is no area of society that is not subject in one way or another to the god of democracy. If some small areas of existence yet remain for us alone to decide, that simply means the “consensus” has yet to turn its cyclopean eye in that direction.

What the advocates of a “consensus society” have yet to understand—or still refuse to accept—is that at the end of the road on which they have embarked lies an omnipotent government, a government that can not only do many things for them, but many things *to* them. When the dragon they helped create eventually turns on and devours them, it will be far too late for them to realize and acknowledge that the only consensus appropriate for a society is one that supports freedom.



How Government Destroys Medical Care

BY STEVEN GREENHUT

News in August that Northridge Hospital Medical Center's Sherman Way Campus, the San Fernando Valley's oldest hospital, would be shutting its doors, was greeted by Los Angeles County residents with the same sense of resignation that has greeted other recently announced hospital closures.

Another hospital or emergency room closing? What else is new?

Earlier in August, Elstar Community Hospital in East Los Angeles closed its emergency room and edged closer to closing the entire hospital after filing for Chapter 11 bankruptcy protection in 2003. As the *Los Angeles Times* also reported in late August, "Six emergency rooms have closed in the last 14 months. Hospital and healthcare officials predict a further 10 percent to 15 percent reduction in the county's emergency room capacity, with three large ERs at private hospitals thought to be at risk of closure.

"All this is taking place as the number of Californians without health insurance continues to surge," according to the newspaper. "Since 1988, the number of emergency rooms in the county has dwindled from 97 to 79. Trauma centers have fallen from 16 to 13. Though some remaining hospitals have expanded their services to make up for those closures, the Los Angeles County population has grown by more than 1 million and the portion of uninsured residents has climbed from 20 percent to 27 percent during that period."

The *Times* reporter used terms such as "doomsday," "meltdown," and "healthcare Chernobyl" to describe the situation, as emergency-room patients increasingly must wait 16 hours or more for treatment, or four days or more to get a bed in a hospital.

As is often the case, California is on the cutting

edge of most every troubling trend, and Los Angeles County, the nation's most populous county, often leads the state over the brink. Those of us who live here can only shake our heads and wonder why local officials and residents don't understand the obvious root causes of the crisis du jour, and why residents of other states don't catch on before the crisis comes to them.

All of the recent crises have the same cause: government meddling in the market.

I learned the reasons for the health-care crisis after visiting an emergency room following a gall-bladder attack. I was prepared to show my insurance card and provide personal information so the hospital would know that I was going to be able to pay for the medical services I would receive. But the nurse recoiled in horror as I presented the card. "Put that away," she said. "We're not allowed to look at payment information before treating you."



Steven Greenhut (sgreenhut@ocregister.com) is senior editorial writer and a columnist for the Orange County Register in Santa Ana, Calif., and author of *Abuse of Power: How the Government Misuses Eminent Domain* (Seven Locks Press, 2004).

The law is simple: No one may be turned away from a hospital, unless the hospital does not offer the specific services needed. Everyone must be served for free. As a result, California's poor and uninsured often rely on emergency rooms as their mainstay for health care. They go for immunizations, check-ups, sniffles, anything. No payment required. This is a function of federal law, but the high uninsured, immigrant population in Los Angeles, combined with other state laws has made this Ground Zero for the health-care crisis.

As the *Los Angeles Times*' Jason Felch reports, the crisis "has been blamed on old people and more people; nursing shortages and earthquake retrofits; the uninsured, the indigents and the illegal immigrants."

All of the above-mentioned factors deserve some blame, of course. The aging Anglo population needs an increasing amount of health care. There are severe nursing shortages. A law pushed forward by nurses' organizations and signed into law by former Governor Gray Davis mandates that the ratio of patients to nurses can be no higher than eight to one. It's one of those remarkable socialist-style laws that pretends to fix a problem by mandate, but only exacerbates the problem. There aren't enough nurses to meet those mandates, so now belligerent nurses unions are staging walkouts when hospitals, which cannot afford to meet the new mandate, fall short of the law. That's contributing to the ER closures, which means an even higher patient-to-nurse ratio.

Costly Retrofitting

Earthquake retrofitting is another government-mandated problem. The spokeswoman for Elstar Community Hospital told the *New York Times* that following a recent law mandating additional earthquake retrofitting, the hospital faced a \$16 million expense, which pushed the company over the brink. Many of the hospitals that have closed blame that law.

Los Angeles County has one of the nation's largest populations of indigents and illegal immigrants, who rely almost exclusively on emergency rooms when they need any sort of health care. A *Los Angeles Times* editorial in early September of last year argued that the federal government should "cover the costs of providing emergency medical care to illegal immigrants."

That's one line of attack: Solve the problem by calling on the federal government to send billions of dollars California's way. Californians were hoping to handle it in their own way, also, by pushing forward propositions last November to address the issue. One statewide initiative, Proposition 67, called for a 3 percent tax on telephone bills to create \$150 million that would have been diverted to emergency-room and health-care-related expenses. It was supported by the medical associations, but soundly defeated by voters.

Another initiative, Proposition 72, called for mandating all California employers with 50 or more employees to provide health insurance to employees and to pay 80 percent of the premiums. Medical associations supported it because they saw it as a means to reduce the number of uninsured Californians, who have become a costly burden on hospitals. But the Chamber of Commerce called it a \$5.7 billion tax on employers. Voters narrowly rejected the proposition. Placing a costly new mandate on employers would have most likely increased the number of uninsureds, as companies left the state or stayed under the 50-employee threshold. It could also have depressed wages in some markets. Employers would have faced higher costs—and costs keep going up in mandate-happy California—and that would have given them an incentive to covertly pass on costs to employees. Sure, they couldn't have directly passed the higher premiums on to their workers, but they could have tightened up on wage increases and cut back on other benefits.

There is no fix short of dealing with the market reality. The August *Los Angeles Times* article traces the emergency-room problem and its proposed solutions for the past 15 years. The crisis in 1988, it reported, was solved following a state tobacco tax. In 1995, crisis was averted when President Clinton provided \$1 billion in federal emergency aid to Los Angeles County, then two years later another crisis was averted with \$1.2 billion more in federal aid. In 2002, crisis was averted when county voters passed Measure B, which provided dramatic increases in property taxes.

In September, Los Angeles County officials blamed the Bush administration for refusing to come through with another massive federal bailout—one of its few instances of fiscal responsibility. And, according to

published reports, county hospitals have been refusing transfers of the uninsured from private hospitals, further straining private hospitals and forcing some of them to close their doors amidst enormous losses.

Clearly, throwing more federal money at the problem won't solve it. The federal government already is enormously in debt, and the problems faced by Los Angeles County increasingly are being faced elsewhere. Why make taxpayers pay yet again for the failures of government? Increasing taxes always is a bad idea, and it can't possibly provide enough money to keep pace with the massive losses, if the numbers outlined above are any indication.

The Market and Self-Responsibility

The obvious answer is the marketplace. Individuals, regardless of their immigration status or their income level, must be responsible for their own medical care. If they can't pay for emergency services, they can be held liable for the costs after the fact, financing them if necessary. Charities and churches, of course, would be able to help those without medical insurance or the means to pay for their own health care. Hospitals and medical organizations have always offered help to the indigent also. But the suffocating number of rules, mandates, and edicts must be peeled back, layer by layer, so that private hospitals can compete the way any other business competes.

To some analysts this sounds cruel. As columnist Michael Kinsley argued in September, "The more that market forces are built into healthcare, the more people will not have access to the healthcare they need. The more you protect people from that, the harder it is to create market incentives."

But the opposite is true. The more the market is allowed to work, the more prices are allowed to reflect the actual cost of the service, the more available those services will be to those who need them. In Los Angeles County, the government increasingly has control of the emergency-room and hospital business. The results are clear: ERs and entire hospitals are closing. Lines for care are enormously long, as hospitals need not require payment for services. Because prices are, in essence, zero, there is far more demand than supply, and those with life-

threatening illnesses are most vulnerable to the ensuing shortages.

There are unseen costs as well. How many of these hospitals are investing sufficiently in the latest equipment, given that the return on such investment is nil? Offer a new life-saving service and that service will be swamped by people who want it, but who have no intention of paying for it. Actually, the incentive is to offer nothing more than the basic medical services. This is how things operated in socialist countries, renowned for their horrible health-care practices. I remember one news report about health care in the Soviet Union. At a time when open-heart surgery was common in the United States, Russians with easily fixed heart problems such as clogged arteries were being sent home from Russian hospitals to die. But wasn't health care "free" and a "right" in the Soviet Union? Isn't it time to look at the reality rather than clinging to the fantasy that government can mandate every good and wonderful thing?

While the media have been reporting on the ER-closure problem, a second story has been brewing in the background. It's the continuing crisis at the King/Drew Medical Center in South Central Los Angeles. This county-owned hospital has been under state and federal scrutiny for its poor medical care, and the latest federal inspection from the summer shows ongoing problems.

"Just two months after being reprimanded for rampant medication errors, Martin Luther King Jr./Drew Medical Center failed to give vital antibiotics and breathing treatments as directed to nine patients, a federal inspection has found," reported the *Los Angeles Times*. The federal investigation depicted a poorly run hospital that "failed even to get basic facts right, such as patients' weight and height." Beds were covered in filth; guards used Taser guns on psychiatric patients; food served to patients wasn't refrigerated properly; and so on. Another *Times* report from August explained that "Los Angeles County health officials closed the doors of Martin Luther King Jr./Drew Medical Center to ambulances for more than 60 hours . . . after large numbers of emergency room nurses called in sick or simply didn't show up for their weekend shifts."

Now, how can this Third-World-style medical system get much worse? Yet pundits such as Kinsley are afraid that market forces will make health care services unavailable to those who need them.

Many of the ERs and hospitals that are closing in Los Angeles County are private, and they are the ones that provide the best care. That's true, even though private hospitals operate in a market controlled by government rules and subsidies. King/Drew, like the government-run veterans' hospitals, is an example of the horrors that take place in full-fledged government-run hospitals.

Unfortunately, Kinsley's view is typical. As Los Angeles County's health-care system spirals toward an unending state of filth, shortages, lines, and other hallmarks of government-run systems, county supervisors, state officials, and even the medical profession push for more of the same things that made the system a disaster in the first place. The answer, we're repeatedly told, is to create a complete socialized health-care system, in which insurance is unnecessary because everyone could be treated for "free" at any hospital and any medical facility.

Yet that very element—the "free" nature of health care—is what has destroyed what was once a premier medical system.

County officials told the *Los Angeles Times* that even the passage of the new tax in November wouldn't have fixed the problem. The problem, experts said, is the uninsured. That is correct, but it is the only thing correct in most analyses. As one Los Angeles County supervisor foolishly explained: "It's going to take a consensus in America that healthcare is a right, not a privilege."

So here we go down the socialized-medical-care trail. It already is a "right" at emergency rooms, which

is why no one can get the care they need any more. This is something America's founders understood. The government is supposed to secure our "negative" rights only, protecting life, liberty, and property. Now, the government wants to offer "positive" rights—the "right" to something such as health care. But my right to health care means that someone else must be forced to provide it for me. It's a freedom issue and a practical one. Because of the availability of profits, health-care providers are eager to provide quality care to me at a competitive price. Make health care a right and remove the profit incentive, and health-care providers will be leaving the market in record numbers, which is what is happening in Los Angeles County. The result is that these "free" services decline in quality—then availability.

The destruction of the medical market will mean that we will increasingly have to rely on government services of the sort provided at King/Drew, which thus endangers the lives of each of us and our loved ones. Or we must rely on the black market, and seek out the few facilities that completely opt out of the government-controlled and -subsidized medical market. That's becoming a more reasonable option, which is why governments increasingly penalize those doctors who refuse to submit to their control.

This downward spiral is taking place for a simple reason: Officials, activists, and voters care so much about health care that they insist that it be available to everyone for free, in defiance of the market logic that had previously built the best health-care system in the world.

The lack of understanding of market principles endangers us all. Los Angeles County should offer an example to the rest of the nation of what not to do.



Moral Alchemy

BY SHELDON RICHMAN



The welfare state is a political-legal environment in which the government goes beyond protecting life, liberty, and property against physical aggression and fraud—the traditional classical-liberal functions—ostensibly to assure a broader conception of welfare, such as health, retirement security, employment security, education, consumer and worker safety, and so on.

We should pay close attention to words. The advocates of expansive activist government have adopted a benign label, “welfare state,” to describe their objective. One could say that the limited, classical-liberal form of governance—confined to the police power, the courts, and defense against external threats—best serves the welfare of its citizens. By protecting each individual’s life, liberty, and property, it creates a setting in which everyone can best pursue his own welfare as he sees it. History demonstrates that it worked to an extent that no one previously could have imagined.

We must not let technical economics obscure the fact that, as Ludwig von Mises of the Austrian school put it, “Economics is not about things and tangible material objects; it is about men, their meanings and actions.” And as Adam Smith pointed out, those who present detailed blueprints for what they erroneously call “society’s resources” in reality presume to rearrange people’s lives as someone would move chess pieces around a chessboard, denying their very humanity by violating their liberty.

Economic proposals necessarily involve prescriptions for how people should be treated by government. For example, a minimum-wage law imposes terms on otherwise freely contracting parties. Social Security

dictates how people will provide for their retirement years. National health insurance would shift medical decisions to a bureaucracy.

Government decides. But as George Washington is reputed to have said: “Government is not reason; it is not eloquence. It is force.” Government has nothing to give that it has not first taken, ultimately by threat of violence, from some producer. Hence, the welfare state is based on “legal plunder,” as Frédéric Bastiat called it. Only an impossible moral alchemy could turn theft into beneficence.

The welfare state is based on “legal plunder.” Only an impossible moral alchemy could turn theft into beneficence.

The market promotes well-being because entrepreneurs have to satisfy consumers to earn profits. This is consumer sovereignty. Most entrepreneurship serves mass markets, not the wealthiest few. If an entrepreneur is good at satisfying consumers, he reaps profits and wins “permission” to continue trying to satisfy them. If he is bad at it, he suffers losses and must try something new—or his capital is transferred to better entrepreneurs.

Activist government must operate by overruling consumers in favor of politically chosen projects. On the basis of what knowledge and by what right? These projects have no market test. Yes, people can vote politicians out of office, but this is an extremely weak form of clout and accountability compared to what the free market affords.

Government spending reduces the capital that could be invested to serve consumers and to produce new employment opportunities. Economic growth is

Sheldon Richman (srichman@fee.org) is the editor of The Freeman and the author of Tethered Citizens: Time to Repeal the Welfare State. This article is adapted from remarks delivered at Western New England College in November.

the best hope of the lowest-income groups of society, yet the state stifles growth when it does more than keep the peace.

Just as central planning must fail, so the mini-planning of the welfare state must fail to improve well-being. The planners can't know the relevant information, which is local and often unarticulated, necessary to do their jobs properly.

No wonder \$5 trillion has been spent on the War on Poverty with so little to show for it. That "war" was supposed to create independence, not just hand out money. It did neither well. The biggest beneficiaries were middle-class bureaucrats and grant-receiving academics and think tanks.

The moral argument aside, it is hopeless to think that one can construct a modest welfare state for only the poorest in society. Programs will expand because the political incentives will push the system that way. On the supply side, vote-seeking politicians and prestige-seeking bureaucrats will have an interest in enlarging the distributive state. On the demand side, favor-seeking lobbies will proliferate as government gets into the business of giving out largess. A new ethic will permeate society: I'd better get mine or someone else will. The state becomes what Bastiat described: "that great fiction by which everyone seeks to live at the expense of everybody else."

Tethered Citizens

The welfare state makes us dependent on politicians and bureaucrats, especially in our most vulnerable years. Why would anyone want his retirement income or health care left to the discretion of capricious politicians who can change the terms any time? Twice the Supreme Court has ruled that Americans have no contractual rights with respect to their Social Security taxes. That would not be the case with private pensions.

We must not ignore the non-economic cost of the welfare state—the loss of freedom, independence, and

dignity. The more power government has to provide things, the more power it has to dictate terms. The more that risk is socialized, the more reason the state will have to regulate peaceful behavior. Government control of health care leads to government control of health, that is, of risky private conduct. Why let people smoke if the taxpayers have to pay for the medical care of cancer patients?

Counterfeit rights drive out real rights. Positive welfare "rights" (health care, education, and so on) mean an expansion of government power, not freedom

and independence for individuals. German Chancellor Otto von Bismarck understood this in the late nineteenth century. He invented the modern welfare state to keep workers from seeking a radical (liberal or Marxist) alternative to the status quo.

The desire for a safety net is reasonable. The future is uncertain, and we all wish to create security for ourselves and our families. But it does not follow that government must provide it. In fact, civil society produces a better safety net, without the moral and political drawbacks. Besides the monumental efforts of private philan-

thropists and charitable foundations, the largely unknown mutual-aid societies (lodges) enabled people of modest means to look after themselves and their families in times of adversity.

Alexis de Tocqueville, in volume two of *Democracy in America*, wondered, "What Sort of Despotism Democratic Nations Have to Fear." Anticipating that democratic despotism would come from government's smothering the people with control-laden benefits, he wrote: "Above this race of men stands an immense and tutelary power, which takes upon itself alone to secure their gratifications and to watch over their fate. That power is absolute, minute, regular, provident, and mild. It would be like the authority of a parent if, like that authority, its object was to prepare men for manhood; but it seeks, on the contrary, to keep them in perpetual childhood." 

The future is uncertain, and we all wish to create security for ourselves and our families. But it does not follow that government must provide it.

Selling the Free Market to Nonbelievers

BY RALPH HOOD

During most of my life I have failed miserably to turn so-called liberals into free-market advocates. Perhaps it was my attitude. “If you weren’t so stupid you could understand” is a poor way to sell an idea, I guess. It surely didn’t work for me.

Lately, to my amazement, I have had some success. Two Presbyterian ministers have actually come around to agree that Adam Smith was right (one of them now maintains that Smith’s “invisible hand” is provided by God, and that suits me fine), and one NASA rocket engineer has come around on some areas, if not all.

There is a reason for this heady success. I have changed my tactics. I decided to quit arguing with “liberals” and instead began to explain the market from their side of the fence.

For example, when the subject of National Public Radio (NPR) comes up, I no longer call it a socialist plot (that never worked, anyway). Instead, I readily admit that I, personally, love public radio. It is, in fact, my favorite radio network. I listen to it all of the time, but it does make me feel guilty.

The astonishment on the other person’s face is priceless. “Guilty? Why would you feel guilty?”

“Well,” sez I, “NPR is, after all, a subsidy for upscale, educated people, and I just feel so sorry for the poor folks working to pay for my choice of radio programs. I just can’t figure out why some fellow flipping hamburgers at minimum wage in Seattle should pay for the music I want to hear in Alabama. It doesn’t seem fair, somehow. After all, I’m not forced to pay for his rap music.”

Ah, fellow believers, it would put joy in your heart to see the confused look on the person’s countenance.

He is shaken to the core and is prone to walk away shaking his head and muttering.

Likewise with tariffs and quotas. I have never figured out why “liberals” seem to be in favor of trade restrictions, but many are. Several, in fact, are in my Sunday-school class. They were blatantly uninterested when I explained that trade quotas raise the prices that all of us pay for sugar and other products. They figured that was just Ralph, spouting off about money again.

Now, I take a different tack. “Tariffs and quotas on imports just seem so unfair to the poor people of third-world countries—the very people that our church supports with foreign missions.” That confused look comes back but with a touch of wariness this time. They have grown suspicious.

“Uh, unfair in what way?”

“Well, gosh, here we are giving money to them as a church and as a nation to help them out of their desperate plight, yet we deny them their most fundamental right, the one thing most likely to ease their life: the right to sell us their products. And we do that just so a few Americans can get rich selling us their products at higher than world market prices.

“Liberals” are not accustomed to defending their position when you point out how said position costs the poorest of the poor. They really do believe that the free market is for robber barons and other rich folks. Interestingly, I have never, ever, had a “liberal” come up with satisfactory answers on these subjects.

Try it. You’ll like it.



Ralph Hood (hoodspeak@cs.com) is writer in Huntsville, Alabama.

Yo, Brooklyn! Get Real About Politics and Sports

BY RAYMOND J. KEATING

Brooklyn, New York, needs a reality check on sports—whether it comes to the borough's past with baseball's Dodgers, or its possible future with basketball's Nets.

Even though the Dodgers left for Los Angeles almost a half-century ago, for many that move still hangs like a dark cloud over Brooklyn. Some people trace the borough's economic decline to the loss of the Dodgers.

When the L.A. Dodgers were put up for sale in early 1997, New York politicians even took time to pander to those still suffering from the absence of "Dem Bums." Governor George Pataki, for example, declared: "The Dodgers belong in Brooklyn, just as the Yankees belong in the Bronx and the Mets belong in Queens. The Dodgers' temporary stay on the West Coast should come to an end."

Brooklyn's demise, though, wasn't the result of the Dodgers' leaving town. Brooklyn, along with the rest of New York City, declined because of big-government leftism, which brought with it a costly, destructive welfare state, a lack of will to fight crime, and a perverse enthusiasm for raising taxes. When one considers that crime was on the rise and that politicians imposed city personal, corporate, and unincorporated business income taxes in the mid-1960s, the reason for New York City's woes becomes pretty clear. Rudy Giuliani came along as mayor in the 1990s to deal with crime, but big government and onerous taxes remain. In fact, in recent years, Mayor Michael Bloomberg and the city council have hiked property, sales, income, tobacco, and cell-phone taxes.

It was announced in late January 2004 that developer Bruce Ratner was buying the New Jersey Nets for

\$300 million. The NBA approved the sale last August. Ratner has a dream of bringing the team to a new \$500-million arena that would be part of a \$2.5 billion commercial and residential project in downtown Brooklyn.

Naturally, Brooklyn Borough President Marty Markowitz brought up the Dodgers in his response to the local press when the deal was first announced: "It corrects the great mistake of 1957 . . . when the Brooklyn Dodgers moved to La-La Land." He added: "This is redemption. This is Brooklyn getting its respect back." Things don't seem to have changed much in almost 50 years.

In fact, it sometimes amazes me how little things change in New York City. Today's other hot sports-facility debate revolves around luring the NFL's Jets and the 2012 Summer Olympics to the city with a new stadium in Manhattan. The location for that proposed stadium—over the railroad yards on the west side of Manhattan—is the same site proposed by Manhattan Borough President Hulan Jack in the 1950s when he was trying to keep the New York baseball Giants in town.

Meanwhile, the location of the proposed arena for the Nets happens to be the same spot where Walter O'Malley wanted to build a domed ballpark for his Dodgers. Like O'Malley, Ratner wants the government to condemn property for his project. Of course, the constitutional power of eminent domain was never meant for taking property from one private entity for

Contributing editor Raymond Keating (rjknewsday@aol.com) is a columnist for Newsday and chief economist for the Small Business & Entrepreneurship Council. He is writing a book on sports and politics for the Cato Institute.

the purpose of padding the profits of another private entity. But this is left-wing New York, so what the heck. Still, various Brooklynites who face losing their homes and businesses to government seizure for the benefit of the Nets' new owner are rallying to oppose any such land grab.

There is one big difference between O'Malley and Ratner, though. O'Malley wanted to build his ballpark with private money. Ratner seeks enormous government help for his arena, including related infrastructure costs, the donation of air rights to build over the Long Island Railroad yards in the borough, and special tax breaks to pay for the project. The breaks being discussed include so-called incremental tax revenues, sometimes known as tax increment financing, or TIFs. The basic idea is that the government floats bonds to pay for the project, and the bonds are paid off with the future property-tax revenues generated by the project. Gee, that would have come in handy when I built my home on a vacant lot a few years ago, but then again, most home and business owners are not among the select few favored by politicians.

Another possibility is that the Brooklyn project would be funded through incremental sales and income taxes generated from the development. That's also a dubious proposal when it comes to a sports arena. Practically every independent economic study relating to subsidizing sports teams makes it clear that teams and their facilities do not boost employment, income, or economic growth. They simply shift consumers' leisure dollars from one place to another.

KeySpan Park

Just consider the lesson from another sports facility that opened on Coney Island in Brooklyn in 2001. KeySpan Park is home to a minor league baseball team—the Brooklyn Cyclones. As I noted attending a game last September, it is a nice ballpark in a great location. It sits alongside a boardwalk and the beach, and offers stellar views of ships going by on the sea. However, it is evident that this stadium has done nothing for the local economy. The area has vacant storefronts, some boarded-up buildings, and an empty lot right across the street from the stadium. This lack of economic vitality contrasts sharply with the claims

made by local officials that the stadium would spark economic development in the area. People, for the most part, head to the ballpark for the game—and then go home.

For good measure, the cost of KeySpan Park, initially estimated at \$20 million, wound up costing \$39 million—all paid for by the taxpayers. Such cost overruns are anything but unusual when it comes to building stadiums and arenas, especially when taxpayer subsidies are involved.

The fact is, no political reasons exist to give special help to big-league sports, and Brooklyn's experience provides the clearest example. The Dodgers' move west has long been peddled as a huge tragedy for New York and has scared countless politicians across the nation into coughing up taxpayer subsidies to keep the home team in town or to attract a new team.

However, it is instructive to note who paid the political price for the Dodgers' move. In New York, Mayor Robert Wagner won re-election in 1957, right after both the Giants and the Dodgers announced that they were leaving for California. He was re-elected again in 1961. However, two key players in getting the Dodgers to move to Los Angeles—Mayor Norris Poulson and council member Rosalind Wyman—both attributed their subsequent failures at winning re-election to the controversies swirling around the deal to get the Dodgers, as was noted in Neil Sullivan's book *The Dodgers Move West*.

When it comes to a new arena for the Nets, there is no basis for using government's power of eminent domain, nor is there any reason for selective tax breaks. If Ratner wants to build this complex in Brooklyn, that's great. But he needs to buy the land on the open market and build the project with private dollars, without special political treatment.

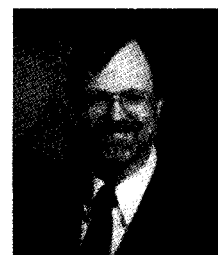
But what if Ratner chooses not to bring the Nets to Brooklyn without government aid? So what? Brooklyn will have lost nothing in economic or political terms.

There obviously is economic value in professional sports, as testified to by the millions of us fans who attend games. However, such value and how resources are allocated should be left to private-sector entrepreneurs and consumers, rather than being subject to the whims and distortions of politicians.



Thomas Garrett and the Underground Railroad

BY BURTON FOLSOM, JR.



On March 27, 1857, an elderly Quaker abolitionist named Thomas Garrett climbed the stairs to his office in Wilmington, Delaware, and penned the following letter to a fellow conductor on the underground railroad: "I have been very anxious for some time past, to hear what has become of Harriet Tubman. . . . Has thee seen or heard anything of her lately? It would be a sorrowful fact, if such a hero as she, should be lost from the Underground Rail Road."

Garrett's words remind us of three things. First, the institution of slavery directly contradicted the spirit of liberty that was wafting through America in the 1800s. Second, the Underground Railroad was a key to freedom for fugitive slaves. Third, for the Underground Railroad to be successful, black and white had to work together—effectively and courageously.

Historians often neglect this last point, but it is critical to understanding the story of freedom in America. Blacks, of course, risked their lives when they tried to escape from their masters. But the white "conductors" on the Underground Railroad, who housed and then transported the slaves northward, risked jail terms or large fines. According to the Fugitive Slave Act, slaves were property, economic assets; helping runaway slaves, therefore, was theft—the transporting of stolen goods across state lines. Slave owners were allowed to go into free territory in the North, using the power of the state to recover their property, and to prosecute those who trafficked in stolen goods. For the Underground Railroad to function, black and white had to share risks and work together to fulfill the goals of the Declaration of Independence.

Thomas Garrett was perhaps the busiest station-master on the entire Underground Railroad. From his

hardware store in Wilmington, which had a secret panel, he helped over 2,300 fugitive slaves slip through the last 20 miles of slave territory into Pennsylvania. The audacious Garrett also tried to feed the often exhausted blacks and give them each a pair of shoes before smuggling them toward the border. His most frequent guest was Harriet Tubman, who had escaped from a plantation in Maryland and who not once but dozens of times courageously crisscrossed the Delaware Pennsylvania border to help over 300 of her fellow fugitives secure freedom. Garrett, as his letter indicates, came to care so deeply for Tubman that he was in anguish whenever she was endangered.

On one of her excursions she could not get to Garrett's store because the local police had been aroused and had posted sentries at the Wilmington bridge into the city. Tubman had a secret note sent to Garrett explaining her problem, and the imaginative Quaker hatched the following plan. He hired a group of sympathetic bricklayers and had them leave the city crossing the Wilmington bridge in two wagons, seemingly off for a day's work on a farm. The police, of course, noted the wagons and expected their return later. Once Garrett's henchmen were safely outside the city, they rendezvoused with Tubman and carefully hid all the fugitives in the bottom of the wagons, under blankets and tools. Later that day, the bricklayers returned to Wilmington and, with gaiety and song, recrossed the bridge, ambled through the roadblock, and fooled the unsuspecting guards.

Burton Folsom, Jr. (Burt.Folsom@Hillsdale.edu) is the Charles Kline Professor of History and Management at Hillsdale College in Michigan. He is the author of The Myth of the Robber Barons, now in its fourth edition.

Once the fugitives were safely inside the city, Garrett emerged to direct them north to freedom.

Life-Threatening Dedication

Garrett's and Tubman's decision to challenge slavery angered many Americans. When one enraged slave owner threatened to shoot Garrett, he boldly visited the man, opened his arms, and said, "Here I am, thee can shoot me if thee likes." The bewildered slave owner was so startled by Garrett's demeanor that he let him go. Garrett was regularly watched by local police and was even denounced by U. S. Chief Justice Roger Taney.

Meanwhile, Tubman had problems of her own. Her husband had denounced her and tried to turn her in. Had he been able to do so, he might have become a wealthy man because his wife's capture, dead or alive, would have fetched a \$12,000 reward.

Such a sum tempted another escaped fugitive, Thomas Otwell, to try to catch her. Tubman entrusted him to help sneak eight more fugitives to Garrett and then to freedom. Otwell almost delivered her and the fugitives to the police, but Tubman left the group early, and when Otwell took the others to the Dover, Delaware, jail, they managed to break out. Six of them made it safely to Garrett, who quickly rushed them to Pennsylvania before the police could stop him.

As these stories show, one of the most startling truths of the Underground Railroad is that much of the conflict was black versus black and white versus white, rather than black versus white.

The elusive Tubman never was caught, but Garrett once was. The court fined him \$5,000 to compensate the slave owner for his loss of property. Such a steep fine left Garrett nearly bankrupt and at the mercy of the local authorities. "Thomas," the sheriff admonished him after the trial, "I hope you will never be caught at this again." After a brief silence, Garrett replied, "Friend, I haven't a dollar in the world, but if thee knows a fugitive anywhere on the face of the earth who needs a breakfast, send him to me."

Garrett not only survived his fine, but rebuilt his hardware business and helped more slaves than ever. "Esteemed friend," he later wrote a black comrade in Philadelphia, "this is my 69th birthday, and I do not know any better way to celebrate it in a way to accord with my feelings, than to send to thee two fugitives, a man and wife."

Garrett lived to see slavery abolished and died in 1871 at age 81. White and black together commemorated his life, and thousands

lined the streets of Wilmington for half a mile to view the black pallbearers carry him to his church.

The Thomas Garrett story is omitted from almost all American history texts. Telling it to students can instruct and inspire them about a crucial chapter in the triumph of freedom in American history. Just as Garrett and Tubman worked for liberty together, so blacks and whites can work together today to strike down racial barriers and promote racial harmony.



Thomas Garrett
courtesy of the Historical Society of Delaware

The Vision of William P. Lear

BY ANTHONY YOUNG

There are many names of individuals that are synonymous with the industries they founded or help to expand. They include Harvey Firestone with tires, Henry Ford with automobiles, James B. Lansing with speakers, and Bill Lear with business jets. Lear identified and established a niche in jet transportation, defied the critics, and built one of the most successful and identifiable aircraft of the twentieth century in the highly competitive industry of business jets. His path to success was marked by decades of effort.

William P. Lear was born in Hannibal, Missouri, in June 1902. His parents separated when he was only 6, and he moved with his mother to the south side of Chicago, where they lived in a tenement. The young Lear was indelibly affected by their abject poverty as he grew up. While in grade school he became fascinated with all things electrical. He pored over electrical journals he found on the newsstand or at the library, even if he did not understand the esoteric descriptions and symbols. He was bright and eager to learn. New technologies for communication and transportation were emerging, and for Bill Lear it was a fascinating time. Even at the age of 12, he saw himself inventing things people would need, and prospering as a result.

"I resolved first to make enough money so I'd never be stopped from finishing anything," he said years later. "Second, that to accumulate money in a hurry—and I was in a hurry—I'd have to invent something that people wanted, and third, that if I ever was going to stand on my own feet, I'd have to leave home."



William P. Lear

Lear grew impatient about the living conditions in Chicago and the dim hopes for his future. He reasoned that if he joined the Navy, he could get the electrical training he wanted. When he was 16 he completed eighth grade, lied about his age to enlist in the Navy, and received the training he sought. World War I ended in 1918, and he was honorably discharged.

Returning to Chicago, he eventually got a job at the Grant Park Airport servicing airmail planes. He succeeded in getting flying lessons in the bargain. These events would all have a bearing on the future direction of Bill Lear.

In 1922 he moved to Quincy, Illinois, and launched his first company, the Quincy Radio Laboratory, selling and repairing radio sets. This was followed by the Lear Radio Laboratory in Tulsa, Oklahoma, which he founded in 1924. He became part owner of the Radio Coil and Wire Company in 1926 and Galvin Manufacturing Company in 1928, both in Chicago. Lear made improvements in tabletop radios that effectively eliminated the radio's storage batteries and permitted them to run on household current. He also worked to develop the first automobile radio, which was successfully marketed by Galvin as the Motor-ola line. That name was later adopted by Galvin as the corporate name Motorola. Lear sold his share of the companies to Galvin in 1930 and took his profits to launch his next company.

Anthony Young (ahyoung@mail.com) is a freelance writer based in Florida. He would like to thank the Lear Archives for their assistance with this article.

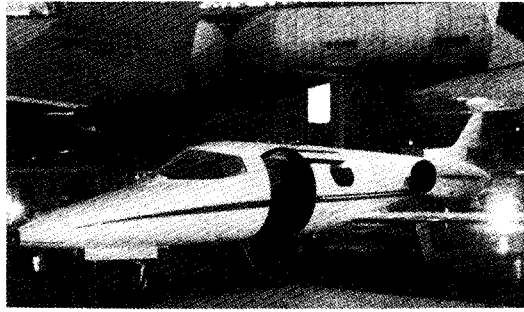
The 1930s marked Bill Lear's foray into the nascent field of aircraft electronics and the home-radio market. In 1931 he started Lear Developments, Inc. Lear formed a loose partnership with Fred M. Link, former assistant chief engineer of the DeForest Radio Company. The Link Radio Company was located in lower Manhattan. Lear purchased a biplane and on a flight from Chicago to New York to meet with Link, realized the difficulty in navigating with only a compass and ill-defined landmarks. He began to research aircraft radio receivers to aid pilot navigation by picking up radio beacon signals. He pioneered the field of aircraft radio compasses, and his products eventually became the dominant choice for both private and commercial pilots.

Endures the Great Depression

Despite the lingering depression, Lear knew the economy would recover. He came up with a concept of a radio front-end that would be common to a host of different radios; this would lower the cost of manufacturing the entire line of radios. Lear designed and built the prototypes in only two weeks. Link introduced Lear to executives at RCA, to whom he demonstrated the concept. RCA paid him \$50,000 in patent rights and \$200,000 in consulting fees. In 1934, the RCA "Magic Brain" radios were marketed to consumers.

Lear used the money to finance the expansion of research, design, and manufacturing of his aircraft radio-communication business. At his new engineering laboratory on Long Island, he developed the Lear-O-Scope Radio Detection Finder in 1935, for which he received the Frank M. Hawk Award.

In 1938, he met 23-year-old Moya Marie Olsen backstage at Manhattan's 46th Street Theater and promptly whisked her off to the Stork Club that evening. Lear was captivated by the vivacious young beauty, and she became intrigued with this handsome, prosperous entrepreneur. They were married in 1942, eventually having four children. She was a powerful



Prototype of the Lear Jet model 23
courtesy of www.airchive.com

and positive influence on the rest of his life.

Lear expanded his product line to include aircraft electro-mechanical actuators and other devices, and established plants in Ohio and Michigan. During World War II his company fulfilled government contracts amounting to tens of millions of

dollars. After the war he developed a lightweight automatic pilot and in 1949 announced the production of the Automatic Approach Control Coupler, or Lear Autopilot for short. This device could automatically bring an airplane into an airport in virtually any kind of weather. For this and other developments, Lear received the Collier Trophy in 1950.

Lear was *the* name in aircraft controls and instrumentation, and Lear radios were in countless homes, successfully competing against Philco, RCA, Motorola, Crosley, and many others.

In the early 1950s, Lear launched work on a high-speed executive transport plane. This involved converting the twin-engine Lockheed Lodestar, improving aerodynamics to reduce drag, and outfitting the plane with luxurious appointments. Top speed was increased from 280 to 320 mph. First flight of the Learstar took place in May 1954. Eventually, 60 Learstars were sold, but Bill Lear had hoped to sell many more. The dawning Jet Age had passed the Learstar by, but Bill Lear was making plans to become part of that new age.

The Lear Jet

By the late 1950s Lear, Inc., employed 5,000 people in America and overseas, with gross sales of over \$90 million. As chairman of the board, Lear spent more time flying around the globe pursuing business than at the company's headquarters in Santa Monica, California. He saw that the future of air travel was by jet. While at his 22-acre estate outside Geneva, Switzerland, Lear conceived a small business jet—smaller, faster, and less expensive than the North American Aviation Sabreliner and the Lockheed JetStar. He had closely followed development of the

Swiss P-16 fighter and wanted to incorporate aspects of it into his new aircraft, such as the low-aspect-ratio wings and wingtip fuel tanks. He brought in Gordon Israel, who had worked with him on the Learstar, to design the aircraft. Lear flew back to the States and presented the concept to his board. Despite his well-reasoned arguments and supporting data, Lear was stunned when the members voted the idea down, saying the market would be too competitive by the time the jet reached production and development costs were too high with no guarantee of return on investment.

Bill Lear was used to getting his way, but he was outvoted. He confided in his wife, who encouraged him to go forward with his dream. Virtually every idea he had pursued had been a success, and they both believed a new small high-performance executive jet would succeed also.

Lear then negotiated a buyout of his shares in Lear, Inc., and received nearly \$15 million. He then established the Swiss American Aircraft Company (SAAC) in Switzerland and consulted with Dr. Hans Studer, chief designer at FFA, the Swiss company building the P-16 fighter. The jet that emerged by 1961 had a small-diameter cabin that could seat seven passengers. It had a wingspan of 35.7 feet, a length just over 43 feet, and a target weight of 12,500 pounds. It would be powered by two General Electric turbojet engines. Problems with suppliers and production tooling motivated Lear to move to the United States in 1962. He chose the Wichita Municipal Airport in Kansas as the future home of his new company, Lear Jet, Inc., and broke ground that August.

Groundbreaking was significant in another way. Bill Lear was footing the entire expense of designing, developing, and building the Lear Jet himself. Despite his decades of success, bankers were reluctant to finance his new endeavor. Lear had made a fortune correctly perceiving market needs, and he believed he was right about his jet as well. The buildings of Lear Jet rose with amazing speed, and work immediately began on the first jet using production tooling. In September 1963 the first Lear Jet, with its gleaming unpainted

aluminum skin, was wheeled from the assembly hangar for its first ground tests. On October 7 test pilot Henry G. Beard with copilot Bob Hagan took the jet up for its maiden flight. It performed all tests flawlessly. Beard, with years of commercial and military aircraft test-flight experience, said the Lear Jet accelerated faster than any jet he had ever flown, including the F-104 fighter, and was capable of reaching mach .85.

Months of further validation testing took place. Although this first plane was subsequently damaged as a result of a Federal Aviation Administration (FAA) pilot's error, a second plane was built, and FAA certification of the Lear Jet was granted on July 31, 1964.

The following week, the FAA administrator personally presented the type certificate to Bill Lear in Wichita. In October the first production plane—only the third Lear Jet built—was delivered to Chemical and Industrial Corporation of Cincinnati. Corporations weren't alone in wanting the new jet. Heads of state, entertainers, and even rock

bands began placing orders for their own Lear Jets during the 1960s. The jet was even the subject of a song by the band *The Byrds*.

A New Leader

By 1967 Lear Jet, Inc., led all manufacturers in sales of business jet aircraft to civil operators. Lear Jets held numerous transcontinental and world records. The line of jets was expanded to include more passenger and fuel capacity. Nevertheless, the company was not in the strongest financial position. That same year the company was acquired by the Gates Rubber Company, and the company name was changed to Gates Learjet. Lear received nearly \$30 million in the sale. Ever the inventor and innovator, Bill Lear looked for new challenges to pursue.

Vehicle-emission controls were being promulgated by the Environmental Protection Agency, and Lear wanted to develop a low-pollution or no-pollution engine. He looked into developing steam as the means

“I have spent my whole life discovering needs and then finding ways to fulfill them.”

— William P. Lear

to do so. His team of engineers worked on steam engines for cars and buses for many months, but the engines did not develop the level of power that was necessary. After losing millions of dollars in the effort, Lear chose to shut it down, perhaps his first significant failure. He moved on to develop a new 12-passenger jet aircraft for Canadair, the Challenger 600, a successful design.

In the mid-1970s, Lear launched what would be his last aircraft project. The Lear Fan was a seven-passenger aircraft built of composites instead of aluminum and powered by two turboprop engines driving a single prop in the rear of the aircraft. Lear, however, contracted leukemia, so he directed his employees to complete the design and build it. He died in May 1978;

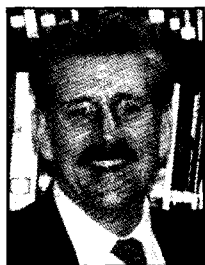
his wife took over the company and operations. The Learfan 2100 was built and flown in 1981. However, the plane never went into production. If Bill Lear had been alive, it no doubt would have. Today, Bombardier builds the newest line of Learjets and Challengers, continuing the Lear tradition.

"There are two kinds of inventors," Lear told *BusinessWeek* in 1972. "There is the inventor who just likes to be clever and come up with a new idea. And there is the inventor who realizes there is a need and tries to fill it. I have spent my whole life discovering needs and then finding ways to fulfill them."

In that, Bill Lear succeeded admirably—an example of entrepreneurial vision and persistence that bettered the lives of countless people. 

Evenings at FEE

Please join us and other friends of liberty in Irvington, New York

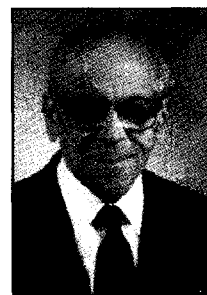


Saturday, February 5, 2005
"Dancing with the Devil: FDR, Stalin,
and the Lasting Legacy of the Yalta
Conference"

Dr. Richard M. Ebeling
*President, Foundation for
Economic Education*

Saturday, March 12, 2005
"Freedom and the Therapeutic State"

Dr. Thomas Szasz
*Freeman Columnist
Professor of Psychology Emeritus,
SUNY Upstate Medical University*



For details, go to www.fee.org

RSVP: Evenings@FEE.org or (914) 591-7230

The Tobacco-Quota Buyout: More Legal Plunder

BY E. C. PASOUR, JR.

Critics of tobacco use (and others) have been calling for an end to all government support to the industry for several decades. Now, under the corporate-tax bill passed by Congress last October, owners of tobacco quotas and farmers who produce the crop in the United States will receive cash payments totaling \$10.1 billion as a quid pro quo for accepting an end to the tobacco price-support program. This linking of compensation to termination of the tobacco production cartel created buyout fever in North Carolina, Kentucky, and other major tobacco-producing states.

What was the purpose of the tobacco program and why was it in trouble? What was a tobacco-marketing quota and why did it have market value? Does the buyout make sense—economically or ethically? First, consider a brief overview of the federal price-support program for tobacco and how it operated.

The U.S. Department of Agriculture had operated a tobacco-production cartel since the early 1930s during the New Deal. The price of tobacco was raised above the market level to the “support price” by restricting production through the use of government-assigned producer poundage quotas. The national tobacco-marketing quota was the quantity (in pounds) of tobacco all domestic producers were permitted to market each year.¹ The national quota was allocated among individual farms based proportionally on their history of producing tobacco. The federal government each year adjusted the amount of quotas based on estimates of buyer purchases for the coming season.



Nicotiana Tabacum

The market for the “right” to produce and sell tobacco was tightly controlled. Tobacco had to be grown in the county to which the quota was assigned. If a farmer wished to grow tobacco but did not own a quota, he had to purchase or lease it from someone who did. If renting a quota from someone else, he had to produce tobacco on the farm to which the quota was attached—a quota could not be leased or sold across county or state lines. Thus less-efficient producers continued to grow tobacco because the program distorted the pattern of production, as restrictions on selling and renting quotas prevented production from moving to lower-cost regions. When the program ended, there were about 430,000 quota owners and about 60,000 active producers of tobacco in the United States.²

Quota holdings repeatedly were divided by inheritances, land sales, or other transactions and disconnected from tobacco-farming operations, giving rise to widespread absentee ownership. Although tobacco was grown under quota in only 21 states, the quota owners were scattered across all 50 states, the District of Columbia, four U.S. territories, and even 16 foreign countries.³

What determined the quota price?⁴ In economic terms, the value of the price-support program was incorporated into quota prices. Annual lease rates for quotas reflected the difference between the govern-

E. C. Pasour, Jr., (ec_pasour@ncsu.edu) is professor emeritus of agricultural and resource economics, North Carolina State University.

ment-supported price of tobacco and non-quota costs of production, primarily land, labor, fertilizer, and pesticides. If the support price for tobacco was, say, \$2 per pound and non-quota costs of production were \$1.50 per pound, the quota rental value would have been about 50 cents per pound. Quota prices varied over time with changes in the amount of quotas and the supply and demand for tobacco. If, for example, the amount of quotas was reduced and economic conditions remained unchanged, the annual rental rate for quota increased.

The capital value of the quota reflected the present value of the expected future annual rents. For example, if quota could be rented for one year at 50 cents per pound and the tobacco program was expected to last indefinitely, the capital value of quota would have been \$10 per pound if the discount rate—the interest rate at which money can be invested—was 5 percent. That is, a quota sale price of \$10 (\$1.50 divided by 5 percent) per pound would provide an annual income of 50 cents per pound in perpetuity.

Recently, tobacco-marketing quotas were renting for 50–60 cents per pound, while the sale or capital values were as much as \$6 per pound amid buyout speculation.⁵ Rental rates and sales values varied from county to county because of differences in costs of production and restrictions on the transfer of quotas.

Who Benefited?

The farmers who were assigned production rights when the tobacco program was initiated received a once-and-for-all windfall gain. Once the program began, farmers producing tobacco either had to own a tobacco allotment or rent it from someone who did. Thus producers in later years received little benefit from the price-support program because the higher product prices were largely offset by higher production costs.

Individuals who later bought marketing quotas had to pay the market value—the estimated present value of estimated future annual quota rents. Had the pro-

gram been abolished without a buyout, all quota owners would have suffered losses—including many who had never received windfall gains. This “transitional gains trap” is similar to that affecting owners of taxi medallions and other grants of government privilege.⁶

As it stands, the tobacco-quota buyout rewards those who received windfall gains along with those who didn’t.

Once begun, some of the fully predictable (but unintended) consequences of the price-support program soon became manifest. The tobacco program led to increased costs of production for all producers because a prospective tobacco farmer either had to own or rent a quota. If a farmer rented a quota for, say, 50 cents per pound, production outlays were increased by that amount. If a tobacco farmer used his own quota, the rental income forgone represented an implicit cost—the opportunity cost of what was lost by not renting the quota to another farmer. Higher tobacco prices meant higher quota prices and increased costs of production.

As a result, sales of U.S.-grown tobacco have declined sharply in recent years. Domestic and, especially, foreign buyers of tobacco increasingly turned to non-U.S. exporters like Brazil, Malawi, and Argentina, as the harmful effect of the program intensified.⁷ Exports of U.S. tobacco and tobacco products decreased by more than 75 percent from 1992 to 2003.⁸ Because of the dramatic decrease in use of domestically produced tobacco, the amount of marketing quotas for the 2004 crop year was only half as large as it was in 1997.⁹ With rapidly declining quotas, tobacco producers were increasingly willing to forgo the tobacco program—and increased their efforts to get a buyout.

Under the last October’s buyout bill, quota owners will receive \$7 per pound of quota owned and active producers \$3 per pound of quota on tobacco produced. Most active producers also owned quota, and they will get both payments! The money will come from assessments on manufacturers and importers of tobacco products

**In a free market,
there would have
been no quotas to
which value could
be attached.**

marketed in the United States—that is, ultimately, from smokers primarily.

As with most farm subsidies,¹⁰ most of the payments will mainly go to a small percentage of the recipients. The top 1 percent of recipients will receive more than one-fourth of the payments, averaging almost \$600,000, over ten years. On the other hand, the bottom 80 percent of buyout recipients will each receive about \$5,000 over ten years.

Did a Buyout Make Sense?

Before tapping taxpayers, manufacturers, or smokers for a quota buyout, one should have asked whether a buyout made sense—legally, economically, or ethically. It had been argued that if government action reduced the value of quotas, the loss to quota holders constituted a “taking,” which under the Constitution’s Fifth Amendment is to be compensated by the government. But such a reduction in value does not meet the legal requirements of a “taking.” Numerous restrictions and regulations affecting property rights in land, air, and water have been imposed in recent decades. Economic losses incurred by private citizens in connection with such restrictions are generally not compensable—such losses are held to be a mere incident of lawful regulations.¹¹ And while environmental regulations reduce the value of *legitimate* assets, the value of tobacco quotas was created by government fiat. In other words, in a free market, there would have been no quotas to which value could be attached.

Moreover, there is little evidence that Congress intended to convey the character of property to holders of tobacco allotments in the original New Deal legislation. The emphasis was on restricting production as a means of increasing the price. The situation is closely analogous to that of grazing permits to ranchers on public-domain lands. Here, too, the use represented by the permit is a valuable asset, and it is common for that value to be capitalized either into the value of the permit itself or, in some cases, into the

sales price of the ranch to which it was assigned.¹² However, the government has always maintained that grazing on the public lands is a “privilege,” not a “right,” and grazing permits are explicitly subject to withdrawal by the federal government without compensation.¹³

In short, the fact that tobacco-marketing quotas had economic value does not indicate that their owners had a legally protected property right in them. If tobacco-quota owners had no legally protected property rights, there is no economic or legal basis for a buyout.

What about the ethical case for the buyout? The quota buyout was similar to all other government redistribution schemes—it was wrong in principle.¹⁴

Whenever coercive government goes beyond its proper, limited scope and taxes the incomes of some citizens in order to give the proceeds to others, it is taking what does not belong to it.¹⁵ As Frédéric Bastiat, the nineteenth-century French pamphleteer-economist emphasized, the mission of the law is to protect persons and property, but once the state exceeds this proper limit “you will then be lost in an uncharted territory. . . . Once started where will you stop?”¹⁶

Madison and other framers of the Constitution supported Bastiat’s position. They held that justice was obtained in the process of protection of private property and destroyed in the process of forced transfers.¹⁷ In this view, individuals have no legal obligation to help others because this would imply that potential recipients have a right to take what is not theirs, which is inconsistent with the laws of justice. Individuals acting on their own are free to help the less fortunate, of course, and indeed, as moral persons ought to do so.

With increasing foreign competition and declining smoking rates, tobacco farmers became more willing to take their chances in the free market. But, not surprisingly, they wanted to be compensated for giving up the cartel. “You’ve got farmers and quota holders who have been going along with this program for 60 years,” said

There is no economic, legal, or ethical reason to force anyone to compensate those who have benefited from a government-enforced cartel.

the executive director of the National Tobacco Growers Association. "It's just not right to take away the quota value and leave these people stranded."¹⁸ There is no economic, legal, or ethical reason, however, to force anyone to compensate those who have benefited from a government-enforced cartel.

What then explains the momentum for the tobacco quota buyout—why did it pass? The tobacco quota buyout is a prime example of favor seeking—"the term used by economists when referring to actions taken by individuals and groups seeking to use the political process to plunder the wealth of others."¹⁹



1. Jasper Womach, "Tobacco Quota Buyout," Congressional Research Service, Library of Congress, Report to Congress Number EBAGR62, as of July 23, 2004.

2. Ibid.

3. "Taxpayers Pick up Tab to Create Tobacco Millionaires," Environmental Working Group, June 22, 2004, www.ewg.org/farm/tobaccobuyout.php.

4. See E. C. Pasour, Jr., and Randall R. Rucker, *Plowshares and Pork Barrels: The Political Economy of Agriculture* (Oakland Cal.: Independent Institute, forthcoming), chapter 10.

5. Personal correspondence with tobacco economists Blake Brown of North Carolina State University and Will Snell of the University of Kentucky, August 12, 2004.

6. Gordon Tullock, "The Transitional Gains Trap," *Bell Journal of Economics*, Autumn 1975, pp. 6–8.

7. Womach.

8. Tom Capehart, "Tobacco Outlook," p. 14, Economic Research Service, April 22, 2004, www.ers.usda.gov/publications/so/view.asp?f=specialty/tbs-bb/.

9. Ibid., p. 22.

10. Pasour and Rucker, Ch. 6.

11. E. C. Pasour, Jr., "Legal and Economic Rights of Holders of Government Allotments," *American Journal of Agricultural Economics*, November 1972, pp. 622–26.

12. Personal correspondence, B. Delworth Gardner, Brigham Young University, August 10, 2004.

13. Calvin E. Ragsdale, "Section 3 Rights Under the Taylor Grazing Act," *Land and Water Law Review*, October 1971, pp. 399–430.

14. E. C. Pasour, Jr., "The Government as Robin Hood," *The Freeman*, December 1994, pp. 670–72.

15. John Hood, "Is It Really Wrong to Steal?" *Carolina Journal Online*, August 12, 2004, www.carolinajournal.com/jhdailyjournal/display_jhdailyjournal.html?id=1726.

16. Frédéric Bastiat, *The Law* (Irvington-on-Hudson, N.Y.: The Foundation for Economic Education, 1964), p. 69.

17. James D. Gwartney and Richard E. Wagner, "Public Choice and the Constitution: A Madisonian Perspective," in *Public Choice and Constitutional Economics*, James D. Gwartney and Richard E. Wagner, eds., (Greenwich, Conn.: JAI Press Inc., 1988), p. 92.

18. Nancy Zuckerbrod, "Why? Has Become Key Question in Tobacco Buyout," Associated Press, *Raleigh News and Observer*, July 25, 2004, p. A6.

19. James D. Gwartney, Richard L. Stroup, and Russell S. Sobel, *Economics: Private and Public Choice*, Ninth ed. (Orlando, Fla.: Dryden Press, 2000), p. 155.

Capital Letters

Climate Change and Species Extinction

To the Editor:

Re Christopher Lingle's September article about global warming and species extinction: Just proposing that species can adapt in the abstract does not mean that they can adapt in the current environment. Geography, politics, and human settlements frequently make alteration in the range of a species impossible. Moving to higher ground is not possible above a certain altitude, and the species might already be at that altitude. If moving to a higher latitude requires crossing a wide river . . . or sea, that likely will not happen. . . . Sometimes the altered range intrudes into human civilization, making adaptation impossible. . . .

Furthermore, implying that changing the range of the species somehow magically increases the range is utter nonsense. If the species must move to avoid warming, some of their former range will now be off limits for precisely that reason. There is no guarantee that the new range will be larger. Most of the time, it will be smaller. Moving to higher latitudes (close to the poles) will mean less solar energy received, which will mean less plant growth. Animals that depend on that particular plant will find their numbers reduced, perhaps critically. Predators that feed on grazers will find their numbers also stressed.

The evidence that higher CO₂ concentrations will result in greater plant growth is quite equivocal, and has been disproved for the most important crops. The author posits that adaptation will solve this problem. But adaptation usually takes place over the course of centuries, not years. The plants might simply not have enough time to move. And the animals that secured their niche based on those plants will be more at risk. . . . I lean toward accepting the following premises: (1) global warming is a real phenomenon; (2) it is already, and will continue to be, a negative for human survival (to say nothing about the rest of the biosphere);

(3). . . we have done this to ourselves.

. . . Attacking the science because we don't like the politics of some of the scientists is foolhardy. So I close by asking the author. . . : What evidence would cause you to reconsider your position and accept the position you have so far rejected?

—DAN KARLAN

Waldwick, N.J.

Christopher Lingle replies:

In response to Dan Karlan, I accept his reasoned skepticism about species migration over space and time. His points are well made and merit thoughtful consideration. However, a response would go beyond the space likely to be allocated to my reply.

Instead, I will address my remarks to his query concerning evidence that would cause me to reconsider my position. First, I would have to see evidence that reconciles the differing data from surface temperatures that suggest a warming trend with the data gathered from weather balloons and satellites that do not support the notion of a warming trend.

I would also have to see evidence that modeling of climate involves more complexity so that solar flaring and water vapor can be accounted for. These natural phenomena are much more important in influencing climate and weather than the combined actions of mankind. Indeed, one large volcanic eruption will disrupt weather patterns and alter climate to a much greater extent than decades of anthropogenic effects.

Relating to the notion of global warming as he presents it, Mr. Karlan's three premises are based on inconclusive science. As such, any discussion on the matter has no bearing on the legitimacy of the libertarian mindset that he mentions.

We will print the most interesting and provocative letters we receive regarding articles in *The Freeman* and the issues they raise. Brevity is encouraged; longer letters may be edited because of space limitations. Address your letters to: *The Freeman*, FEE, 30 S. Broadway, Irvington-on-Hudson, NY 10533; e-mail: freeman@fcc.org; fax: 914-591-8910.

Do Immigrants Threaten Social Cohesion?

To the Editor:

While P. Gardner Goldsmith makes good sense vs. some of the arguments against unlimited immigration (September 2004), he omits the caution appropriate to cultural integrity in giving blanket approval to it: "The reason immigrants are not dangerous to the U.S. economy is that they allow customers to buy the best product they can for the lowest price, etc." Owe we not a debt to social cohesion too? Or to assimilation of our cultural mores? To our Constitution? Must everything start and end with "the U.S. economy" and "lower prices"? Has he heard of La Raza or Aztlan, or studied "Chicano studies," etc.? Rosy-hued immigration futurists seem to be at cross purposes with "Doomsayers" or, at least, they should seek a middle ground of sensible, moderate, assimilatable levels of immigration (e.g., 250,000/year) rather than extremes of none at all or massive, unlimited numbers.

May we expect rigorous analysis of these challenging issues facing economists in post-'60s America?

—W. EDWARD CHYNOWETH

Sanger, California

Gardner Goldsmith replies:

The intention of my article was to address the economic arguments against unlimited immigration, nothing more. This is stated at the outset of the piece. However, since other aspects of the issue are mentioned, this might be an appropriate place to address them. Specifically, Mr. Chynoweth stresses the importance of social cohesion for a society, and, by implication, the tendency of uncontrolled immigration to break a country down into an atavistic mess, no longer recognizable as the nation it once was.

What worries most conservatives is the thought that immigrants with cultural differences might not draw on our shared Western, classical-liberal values, and this could erode our governmental institutions, our economy, and our society over time.

But at the heart of this fear is the unspoken recognition of the dangers of uncontrolled government, the worry that new immigrants who do not share one's devotion to the Western sources of American government could, some day, influence the state, and expand it, to the detriment of our constitutional order. It should be noted, however, that this tragedy can only occur if the immigrants are either unaware of the institutional advantages that inspired them to emigrate, or they, like contemporary politicians, shun the principles of limited government and embrace statism. In either scenario, it is not the immigrants per se that cause the worry; it is the mechanism of government. The longevity of our republic is surely dependent on the character and ideals of those who comprise it, but the more corrupt the framework of government programs becomes, the more it undermines the ideals of those who will shape it in the future. . . .

Perhaps what most conservatives find troubling about unrestrained immigration is not how many enter the country, but the ideologies and work ethics immigrants bring with them. Are they coming for a chance to work or for a handout from a growing welfare state? In the early twentieth century, the very Asians who were banned from entering the United States previously turned out to be some of the most productive, patriotic, conservative citizens in the nation. While retaining their cultural heritage, they also assimilated, adding their own cultural contributions to our thriving country. Likewise, refugees from Cambodia, Vietnam, North Korea, and Cuba who came here from despotic regimes all carried with them an appreciation of, and devotion to, American freedom.

Our current debate is not so much about immigrants in general, but Mexican immigrants in particular, and if we have problems with more Mexicans entering, it is not the immigrants we ought to blame. It is the system of government handouts and schools that will attract the kinds of people who will likely disregard the Constitution and vote in favor of larger government.



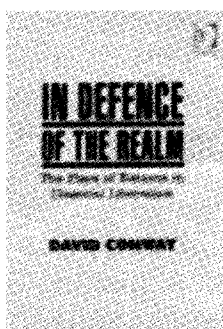
Book Reviews

In Defence of the Realm: The Place of Nations in Classical Liberalism

by David Conway

Ashgate Publishing • 2004 • 210 pages • \$79.95

Reviewed by Richard M. Ebeling



Classical liberalism is a universal philosophy of the social good. It argues that the individual should be recognized as possessing the fundamental rights to life, liberty, and property, which neither private individuals nor political authorities should be permitted to violate or abridge. The role of

government in the classical-liberal ideal is protector and respecter of those rights, and very little else.

Classical liberalism is universal because the rights to life, liberty, and property are not reserved for any special people or nation. Every individual, everywhere and at any time, is entitled to those rights. For the classical liberal, history is the story of the struggle for liberty.

The tradition of liberty has been the heritage of only a tiny number of nations. Its focal point over the last several centuries has been Great Britain and the United States, with a few other countries in the shadow of their influence. And for a hundred years now, the tradition in those countries has been under constant attack by proponents of various forms of collectivism, from the mild to the extreme.

If this heritage were to be completely lost in those few countries, it would be a loss not only for them, but also for the entire world. How shall the heritage of liberty be preserved, therefore, in Great Britain and the United States? This is the question political philosopher David Conway attempts to answer in his recent work, *In Defence of the Realm: The Place of Nations in Classical Liberalism*.

Liberty is under attack, Conway warns, from the ideology of political correctness and multiculturalism. Government economic and social policies, and the

curriculum in public schools, are undermining both the practice of liberty and any knowledge of its history and importance. The idea of group and collective “rights” based on race, gender, ethnicity, and social “class” has replaced the ideal of individual liberty. The ethics of coercive redistribution of wealth has superseded the principles of inviolate private property and self-responsibility.

What needs to be restored, Conway argues, is a national awareness of and patriotic pride in being a Briton or an American born into the ideal of liberty. In no way does Conway fall into the trap of “my country right or wrong.” He would consider that a false and twisted sense of patriotism rightly understood.

He refers to and extensively quotes from leading figures of liberty over the last three centuries to demonstrate that it was once understood that what made someone a “real” Briton or American was the knowledge that his forebears had fought for personal, social, economic, and political liberty. That is what created much of the national identity, political loyalty, and social spirit in Britain and America.

The central question then arises over how that older sense of what it means to be an American (or a Briton) can be restored. The issue is not the desirability of a rebirth of a national spirit of liberty. (See Richard M. Ebeling, “What It Means to Be an American: Let Freedom Reign,” *Notes from FEE*, November 2003.) The problem concerns the most appropriate means to that end.

Conway wishes to use the power of the state to move back in this direction. While he recognizes the rationale for privatizing education, he nevertheless proposes to use the existing public schools to educate young Britons and Americans about the true history of their countries. He wants to impose legal requirements to guarantee that English remains the national language. And he wishes to stem the flow and more selectively determine the patterns of immigration into the two countries.

The problem is that those means will fail and may very well make a restoration of the tradition of liberty even more difficult. Given the stranglehold that advocates of political correctness and multiculturalism have over the government’s monopoly school system, the

only way to undermine its power is for a growing number of people to opt out. The continuing growth of a parallel network of private schools and home-schooling families offers the better chance to liberate the minds of America's young from government propaganda. At the same time, a new generation will learn the morality and the practice of self-responsibility and self-improvement as foundation stones of a free society.

The power of a common language in reinforcing a sense of a shared identity certainly cannot be denied. But a government mandate is not consistent with the ideal of freedom. Instead, the drive should be for a repeal of laws that rigidly impose bi- or multilingual education and standards on society. Freedom of association and the gains from trade in the market should determine which or how many languages within the nation best serve the interests of the people. The selection of language should be left to the "invisible hand" of the free society, rather than the fist of government.

Finally, it is difficult to see how the principle of liberty can be consistently practiced if it does not include freedom of movement. Immigration laws, no matter what rules and standards may be used, remain a form of social engineering and political planning. There are presently a variety of perverse incentives at work in attracting some people into the United States (for example, various welfare-state benefits for which the new arrival may be immediately eligible), and policy reforms should aim to eliminate them. If the welfare state cannot be abolished in the near term, one method of limiting its influence would be to stipulate that all new immigrants are ineligible for welfare benefits of any sort for the first ten years they and their dependents reside in the United States.

There has been a unique British and American character, and among its qualities has been a greater cultural and political appreciation of liberty. This is increasingly threatened today. If that heritage is to be preserved and enriched, the means must be consistent with the ideal.



Richard Ebeling is the president of FEE.

Is the Market Moral? A Dialogue on Religion, Economics, and Justice

by Rebecca M. Blank and William McGurn

Brookings Institution Press • 2004 • 151 pages • \$16.95

Reviewed by James Otteson



IS THE MARKET
MORAL?



Is the Market Moral? is a debate between economist Rebecca Blank and *Wall Street Journal* editor William McGurn not about the extent to which market economies are compatible with morality, as the slim volume's title suggests, but rather about the extent to which they are compatible with Christianity. Both Blank and McGurn are Christians, the former a Lutheran and the latter a Catholic; the book comprises their statements of their views and their responses to each other.

Despite her acknowledgment that "there is no viable alternative to the market as an organizing principle for an economic system in a complex society," Blank believes that "there are a variety of justifications for government action beyond those conventionally recognized by economists." In support of the first claim, Blank lists several advantages of market economies: proper alignment of incentives, efficiency, and decentralized decision-making. She also raises standard problems, however, like asymmetrical information, externalities, public goods, and monopolies, which she argues require government intervention. Still, her claim is that the government's role is to help keep the market competitive, not to replace it or pervert its generally beneficial structure.

But when she turns her attention to the market's concordance with Christian principles, she finds it more seriously lacking. She argues that whereas the market concentrates only on individuals, Christianity focuses on both individuals and communities; whereas the market calls on us only to be self-interested, Christianity calls on us to be "other-interested"; whereas the market tells us that "more is better," Christianity tells us that sometimes less is more; whereas the market tells us that any good may be produced for which there is a demand, Christianity cannot view all choices as morally neutral; and, finally,

whereas the market “ignores the poor because they are not participants,” Christianity “brings them into the center of community concern.”

I find these criticisms unpersuasive and in some cases juvenile. It is not “the market” that makes a person selfish, immoral, un-Christian, or callous toward the poor; all the market does is allow people the freedom to make their own decisions. The morality, or immorality, of those decisions is thus on their own shoulders.

Blank goes on to suggest that the government must, in addition to merely keeping markets competitive, ensure “reasonable hours, a safe work environment, and fair repayment” for labor, enforce “nondiscriminatory and nonabusive work practices,” and address “the environmental problems that widespread economic growth often has caused.” It would seem that the Christian government, according to Blank, is very nearly the expansive welfare state we already have in the United States today.

In his turn, McGurn’s defense of the morality, or Christianity, of markets is good as far as it goes, but it lacks the systematic rigor to really make the case. So, for example, he notes the obvious point that “for the poor the real danger is almost never markets and almost always the absence of them.” He repeatedly uses Hong Kong as an instructive example, and to link his position to Christianity (or at least a certain version of it), he makes frequent reference to Pope John Paul II’s qualified defense of markets and qualified rejection of socialism.

Those are fine points to make, but they are too frequently tied to a specific worldview—Pope John Paul II’s, for example—to make them persuasive generally. Blank’s criticisms of markets, though ostensibly arising from her Lutheran Christianity, are in reality criticisms that people of many religious stripes raise. Hence they need to be addressed in general terms. This can be done, but McGurn’s responses, though occasionally insightful and generally on the right track, are not quite up to the task. At one pivotal moment, McGurn actually agrees with Blank that the market depends on moral virtues “that it cannot create itself” and that it must, therefore, be superintended by the state.

The topic is an important one, but the book disap-

points. Its criticisms of market economies are nothing new, occasionally border on silly, and display little awareness of obvious responses. And because its defenses of the market don’t make a general case, but instead largely rely on particular anecdotal examples, the book is not a significant contribution to the debate of these issues.

Readers looking for a better defense of the morality of capitalism should try Henry Hazlitt’s classic *The Foundations of Morality*, especially the chapter “The Ethics of Capitalism.”

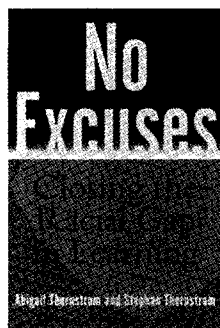


James Otteson teaches philosophy at the University of Alabama and is the author of Adam Smith's Marketplace of Life.

No Excuses: Closing the Racial Gap in Learning

by Abigail Thernstrom and Stephan Thernstrom
Simon & Schuster • 2003/2004 • 334 pages
\$26 hardcover, \$15 paperback

Reviewed by Karen Y. Palasek



In *No Excuses: Closing the Racial Gap in Learning*, the Thernstroms offer a thoughtful discussion of why public schools have failed, and are likely to continue to fail, to close the achievement gap between races. They cite institutional barriers and the lack of proper incentives as roadblocks to educational excellence in the public schools. Unfortunately, the authors stop short of identifying the most fundamental obstacle to improvement: government-run schooling itself.

Effective public schools are the exception rather than the rule, the Thernstroms report. A few public schools have managed to involve parents, to impose exacting standards on teachers and students, and to build academic skills in pupils at high risk for falling even further behind.

Those “wonderful schools” have a common thread. All are charter schools, and in most cases, part of the Knowledge Is Power Program, known as KIPP academies. While still part of the public-school system, charter schools are somewhat less regulated and

receive less public funding than traditional public schools. KIPP schools demand contracts from students, teachers, and parents, and follow through with consequences if someone fails to keep his end of the bargain. These schools mimic, as far as possible, the attention, time, and commitment available in private education, but tend to serve children who have made little academic headway in traditional public schools. Competition for seats at KIPP schools motivates attendance, study, and behavior. And since charter schools are available on a limited basis within the public system, these demanding schools can afford to enforce the rules. The bottom line: KIPP schools get results. Compared to their traditional public-school counterparts, black students at KIPP academies are steadily narrowing the black-white learning gap.

Traditional schools have their hands tied in a number of ways that prevent them from being effective. The authors cite teacher unions, with seniority and tenure demands, lockstep pay grades, and control of teacher-education programs, as the most significant stumbling blocks. Instead of trying to remove those obstacles, however, the Thernstroms would like to see reforms that can only be implemented, at present, in a charter-school setting: performance and subject-based pay differentials, and an emphasis on teacher expertise rather than education credentials.

Can KIPP-style charter schools turn public education around? The success of KIPP academies would seem to make a credible case for increasing the number of charter schools. The authors contend that “every urban school should become a charter.”

Of course, a wholesale conversion of traditional public schools into charters would depose the existing education bureaucracy and invite great resistance, regardless of student success. “The job of unions is to protect the interests of teachers,” the authors note, while “the job of schools is to educate the students.”

But, they add sardonically, “What’s good for unions is not necessarily what’s good for kids.”

Despite its excellent analysis of why a large racial achievement gap exists in “public education,” *No Excuses* unfortunately remains wedded to the notion that public schools should continue to deliver the lion’s share of K–12 education in the United States. Suggested reforms never get outside the “box” of state education. The authors prefer to refurbish government education with better tests, more vigorous standards, higher pay to attract better qualified teachers, and somewhat fewer regulations, rather than look outside the government-schooling system itself. What they offer is a vision of public education populated by charter schools, with greater freedom of choice for parents and market-driven incentives to train, hire, and pay for excellent teachers and superior academic results. If charter schools expand, the authors contend, American public education can be remade in a better form.

But their solution falls short. For example, if the federal No Child Left Behind law was “envisioned as a means of circumventing the many obstacles to change” imposed by unions, it has made some aspects of public education even more inflexible than before. This is particularly true for teacher qualifications.

In the end, the authors of *No Excuses* are stumped. They cannot embrace an unregulated private market for education or see a nongovernment solution to the racial learning gap. This leaves them with little more to anticipate than a bitter contest over who will eventually control the contents of the government-education box.



Karen Palasek is an economist and policy analyst for the John Locke Foundation and adjunct professor of economics at Peace College in Raleigh, N.C.

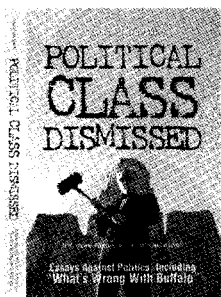


Political Class Dismissed: Essays Against Politics

by James Ostrowski

Cazenovia Books • 2004 • 352 pages • \$15.00 paperback

Reviewed by George C. Leef



People have arrived at the freedom philosophy through a great many intellectual paths. Lawyer James Ostrowski was a conventional liberal of the George McGovern stripe until after graduating from college. He harbored some strong civil libertarian beliefs, but by his own admission

lacked a comprehensive political philosophy and was clueless about the fundamentals of economics. “Then,” he writes, “I stumbled upon Ayn Rand’s essays, which knocked the liberal wind right out of me.”

Hooked on free-market thinking, Ostrowski began to read Murray Rothbard and other libertarian writers. While a student at Brooklyn Law School, he invited Rothbard to give a talk on the Reagan administration, a talk that bewildered most of the students since he criticized Reagan from “the right” for not doing nearly enough to downsize government and reduce taxation, and from “the left” for continuing numerous government assaults on civil liberties. Ostrowski was not at all bewildered, since he had come to understand the consistency of Rothbard’s arguments in favor of liberty.

After embarking on a legal career that has included several brushes with the political establishment, Ostrowski discovered his considerable talent as an essayist and has developed into something of a modern-day Thomas Paine. *Political Class Dismissed* gathers together 50 of his essays published from 1992 to 2003. They cover a wide array of political and economic topics, all written from a solidly libertarian viewpoint and administering a powerful assault on the prevailing statist orthodoxy.

The first and longest essay in the book is titled “What’s Wrong with Buffalo.” Ostrowski was born and raised in Buffalo, N.Y., and has seen the city continually decline over his lifetime. He pulls no punches in identifying the cause: the corrupt

political machine that has dominated local politics for decades. He explains:

In a modern economy, capital is mobile and flows to where it can make the greatest profit. *Buffalo is not that place.* Buffalo is not the place where *new* capital will be invested. Buffalo is the place where *old* capital, fully depreciated, will be abandoned. . . . Ironically, these dire consequences actually strengthened the corrupt local political elites. First, independent-minded persons of means, the political machine’s natural enemies, are driven away. . . . Many of the businessmen who remain are bought off with grants, contracts, special tax breaks, and regulatory and prosecutorial leniency. Second, with the decline of the economy, the goodies offered by politics are seen as more attractive.

Politics has transformed Buffalo from a vibrant city attractive to entrepreneurs to a stagnant place where the coin of the realm is political pull. (Ostrowski reminds readers that Grover Cleveland, arguably the nation’s least interventionist president, was once the mayor of Buffalo.) This indictment of Buffalo’s politicized world is devastating. If anyone thinks the libertarian critique of government intervention and corruption is merely theoretical, a reading of “What’s Wrong with Buffalo” will destroy that notion.

Turn to any of the other essays in the book and you will be treated to similarly unflinching analysis. Ostrowski is, for example, an indefatigable opponent of the “war on drugs.” In “Leave Robert Downey, Jr. Alone,” he writes, “In the future, people will consider our age’s ‘war on drugs’ to be as evil and stupid as we now view the war on witches that occurred 400 years ago in early *modern* Europe.” Rather than “protecting society,” as the drug warriors claim they’re doing, Ostrowski contends that they are merely indulging in one of mankind’s oldest and worst vices, namely pushing peaceful people around.

As a lawyer, Ostrowski has interesting thoughts on our legal system. His essay “Judging the Jury” is a sharp attack on the jury system. Originally, the institution of trial by jury was a check on the power of the state.

Alas, juries now are part of the coercive apparatus of the government. As Ostrowski explains, this is because they have been stripped of their historical right to judge the law as well as to find the facts of a case. Furthermore, “juries are now packed with people who make a living from government work or depend on the government for much of their income.” Most people won’t bite the hand that feeds them.

One of my favorite chapters is “Henry David Thoreau: Libertarian.” Ostrowski shows that while

“liberals” often claim him, Thoreau’s radically anti-statist philosophy would have put him at odds with nearly everything modern liberalism embraces.

Political Class Dismissed sparkles with iconoclastic writing that slams the conventional political and economic thinking at every turn. Libertarians will love it. Conservatives and liberals will find it a constant challenge.

George C. Leef is the book review editor of *The Freeman*.

Honesty and Trust

BY WALTER E. WILLIAMS



Several decades ago I used to enjoy an occasional lunch with the late Professor G. Warren Nutter, a distinguished economist who taught at the University of Virginia. Professor Nutter had considerable expertise in comparative economic systems, particularly that of the former Soviet Union. While he had a deep understanding of economic theory, he always stressed that markets do not operate within a vacuum and we gain a greater understanding of human behavior if we pay attention to the role of institutions and other non-market forces.

At one of our luncheons, just out of the clear blue sky, and maybe just to tease me into an argument, Professor Nutter said that if we had to stop to count our change each time we purchased something, economic activity would grind to a halt. That's a bit of exaggeration, but Professor Nutter was making the point that the institutions of trust and honesty are vital to human well-being. Honesty and trust are not simply matters of character and morality; they're crucial for efficient human interaction and a smoothly working economy.

To gain an appreciation for the significance of honesty and trust, consider what our day-to-day life would be if we couldn't trust anyone. We purchase a bottle of a hundred folic-acid tablets from our drugstore. How many of us bother to count the tablets to ensure that we in fact received a hundred? We drive into a gasoline station and the meter says that we put ten gallons of gasoline into our fuel tank. When was the last time anyone of us bothered to verify whether in fact we received ten gallons instead of nine and a half? We paid seven dollars for a one-pound package of steak.

How many of us bother to verify that it was in fact one pound instead of three-quarters or seventh-eighths of a pound?

Then there's "Send me 100 diskettes and bill me." Or you call your broker telling him to purchase 50 shares of AT&T at the market price and you'll settle within seven days. A salesman says, "If you're not satisfied with your order, bring it back and your money will be refunded." Or, "Mow my lawn and I'll pay you."

In literally millions upon millions of transactions like these, we simply trust each other.

Imagine the costs and inconvenience we'd suffer if people were generally dishonest and we couldn't trust anyone. We would have to lug around measuring instruments to ensure, for example, that it was ten gallons of gas and one pound of steak we purchased. We'd have to bear the costly burden of writing contracts instead of relying on a buyer's or seller's word, and bear the monitoring expense to ensure compliance in the simplest of transactions. It's safe to say that whatever undermines trust

and confidence raises the costs of transactions and makes us worse off.

But generalized honesty and trust go further than that. I live in the Main Line suburbs of Philadelphia. FedEx, UPS, and other deliverymen leave packages containing valuable items on the doorstep if we're not home. A local supermarket leaves plants, fertilizer, and other home and garden items outdoors overnight with no one to guard them from theft. Entering the store, one sees loads of merchandise left unattended in the

Walter Williams is the John M. Olin Distinguished Professor of Economics at George Mason University.

To gain an appreciation for the significance of honesty and trust, consider what our day-to-day life would be if we couldn't trust anyone.

entryway. In neighborhoods where there's less honesty, leaving merchandise on doorsteps, outdoors overnight, and in the supermarket entryway would be equivalent to economic suicide. Delivery companies must bear the costs of making return trips or the customer has to make the pick-up. If the supermarket places goods outside, it must bear the costs of retrieving the items at the close of business—that's if it can risk having merchandise outdoors in the first place.

Generalized honesty affects stores like supermarkets in another way that often goes unappreciated. One of the goals of a supermarket manager is to maximize the rate of merchandise turnover per square foot of leased space. When theft is relatively low, the manager can use outdoor and entryway footage, that is, all the space he pays for, thereby raising his profit potential. That opportunity is denied in localities where there's less honesty.

The fact that honesty and trust are vital should make us re-think the treatment of the dishonest and untrustworthy. Dishonest people impose losses that go beyond those suffered by their direct victims. If packages are stolen from people's doorsteps, the rest of us incur costs when delivery companies stop leaving packages unless someone is home. If people rob bus operators and taxi drivers, all of us are required to have exact change or small bills.

Considering the large economic effects of dishonesty and of not being able to trust one another, we should show little tolerance for violators. Fortunately, we live in a society where we can generally trust and accept the word of one another. That's the good news. The bad news is there's nowhere near the level of trust and honesty there was as recently as a half-century ago. 